In the name of Allah
the most
Compassionate and Merciful

IN THE NAME OF GOD THE MOST COMPASSIONATE, THE MOST MERCIFUL.

" O' MUSLIM NATIONS ! O' OPPRESSED NATIONS ! ISLAMIC COUNTRIES ! PRECIOUS NATIONS DOMINATED BY THOSE WHO PRESENT YOUR ASSETS TO AMERICA FREELY,WHILE YOU ARE LEADING A DIFFICULT LIFE; RISE AND RESIST THE SUPERPOWERS,BECAUSE IF YOU RESIST THEM, THEY WILL NOT BE ABLE TO DO ANYTHING. "

IMAM KHOMEINI

THE FIRST QUESTION THAT WOULD PERHAPS COME INTO ONE'S MIND, AFTER HAVING LOOKED AT THE PRESENT COLLECTION OF DOCUMENTS, IS THAT, WHY IS THERE SO MUCH INFORMATION IN THE AMERICAN EMBASSY IN TEHRAN, ON A SMALL COUNTRY LIKE KUWAIT? THE AVAILABILITY OF SO MUCH INFORMATION AT THE DISPOSAL OF AMERICANS WOULD HAVE BROUGHT ABOUT THE SAME QUESTION IF THE AMERICAN EMBASSY IN KUWAIT WERE TO BE TAKEN OVER. DESPITE THE LONG DISTANCE BETWEEN THE U.S. AND KUWAIT, THE SIZE OF INFORMATION COLLECTED ON THE LATTER IS NOT AT ALL COMPARABLE TO WHAT GATHERED ON OTHER NEIGHBOURS OF KUWAIT. THUS, ONE COULD PERHAPS CLAIM THAT THE U.S. EMBASSY OPERATORS ARE THE REAL CONTROLLERS OF VARIOUS CORNERS OF THE KUWAITI SOCIETY.

WHAT IS THE ROLE OF SO MANY U.S. INSTALLATIONS AND CENTERS HEADED BY AMERICAN EMBASSIES THROUGHOUT THE WORLD. ARE THEY TO FUNCTION AS THE POINT OF CONTACT BETWEEN TWO GOVERNMENTS, OR THEY ARE THE EXTENTION OF ESPIONAGE AND MILITARY ACTIVITIES OF AMERICA WITHIN HOST COUNTRIES. WHO ARE THE ACTUAL RULERS OF THOSE COUNTRIES? THE U.S. ESPIONAGE DENS HAVE ESTABLISHED A REGULAR, SOPHISTICATED AND COSTLY COLONIAL NETWORK ALL OVER THE WORLD BY EXPLOITING THE EXPERIENCES OF THE RECENT HALF CENTURY. FORMER DOCUMENTS AND THOSE PRESENT HERE, DEMONSTRATE THE EXTENSIVE ROLE OF THE U.S. EMBASSY, TEHRAN, IN THE WHOLE REGION.

THESE DOCUMENTS ALSO EXPOSE THE REAL NATURE OF KUWAITI REGIME.THE EXPOSITION WHICH IS THE RESULT OF HOW A MASTER (AMERICA) DESCRIBES A SUBSERVIENT REGIME. THEY ALSO PROVE THAT EITHER OF THE SUPERPOWERS, ESPECIALLY THE "GREAT SATAN", HAS BEEN ACTIVELY CONSPIRING AGAINST THE ISLAMIC REPUBLIC SINCE THE INCEPTION OF THE REVOLUTION. CLEAR UNDERSTANDING OF THE NATURE OF KUWAITI RULERS, AND THE DEPTH OF U.S. INFLUENCE IN THIS SMALL COUNTRY EXPLAINS THE ANTAGONISTIC KUWAITI GOVERNMENT ATTITUDE TOWARDS THE ISLAMIC REPUBLIC. RIGHT BEFORE THE VICTORY OF THE ISLAMIC REVOLUTION, IT REFUSED TO PERMIT THE IMAM ENTRY INTO KUWAIT; AND PRESENTLY, IT IS ACTING AS A CHANNEL THROUGH WHICH A HUGE PART OF WEAPONRY AND EXPORTED COMMODITIES ARE BEING DELIVERED TO THE CRIMINAL BA'ATHIST REGIME OF IRAQ.

WHEN THE GRAND MASTER (THE U.S.) APPOINTED THE SHAH AS THE SCARE-CROW IN THE PERSIAN GULF REGION,OPPRESSIVE KUWAITI RULERS NEVER OPPOSED THEIR IRANIAN COUNTER-PARTS WHO WERE SUPPLYING ISRAEL WITH OIL. WHEN THE ISLAMIC REVOLUTION BEGAN TO DEAL FINAL BLOWS ON SHAH'S REGIME, THE CORRUPT KUWAITI AMBASSADOR TO IRAN, WHO WAS HAVING A HAPPY TIME IN PARIS, RUSHED TO TEHRAN ON HIS PRIVATE PLANE TO EXTEND THE ENCOURAGING MESSAGE OF THE KUWAITI EMIR TO THE SHAH, LATER ON, HE INFORMED HIS AMERICAN MASTER OF THE SHAH'S SELF-CONFIDENCE. (THE SAME STORY IS PERHAPS BEING REPEATED FOR THE CRIMINAL SADDAM ON THESE DAYS).

PERSIAN GULF ARABS WERE NOT HAPPY WITH THE SHAH ACTING AS THE REGIONAL GENDARME , BUT THE " ISLAND OF STABILITY " IN THE SOUTHERN NEIGHBOURHOOD OF RUSSIA, WHICH PROVIDED THEM WITH A DEADLY PEACE IN THE PERSIAN GULF REGION WAS PREFERRABLE OVER A POPULAR REGIME WHOSE OBJECTIVE WAS TO REVIVE ISLAM AND THE ISLAMIC ' UMMA.'

FOR THE SAME REASON, PERSIAN GULF ARAB RULERS WHO SUPERFICIALLY SUPPORT THE PALESTINIAN CAUSE AND OPPOSE THE OCCUPIERS OF QUDS, CONSIDER COOPERATION WITH AMERICA , NAMELY THE NUMBER ONE SUPPORTER OF THE REGIME OCCUPYING QUDS, EQUALLY IMPORTANT AS COLLABORATING WITH THE DEFUNCT REGIME OF SHAH WHOSE CLOSE TIES WITH ISRAEL WAS OBVIOUS.

AS IT IS EVIDENT IN DOCUMENT NO 11, THE KUWAITI GOVERNMENT GENEROUSLY DECLARES ITS READINESS TO COMPENSATE FOR THE SHORTAGE IN IRANIAN OIL EXPORTS TO AMERICA, TO HAVE ASSISTED THE U.S. AND THE SHAH. IN DOCUMENT NO 12, KUWAITI OIL MINISTER COMMENDS THE EFFORTS UNDERTAKEN BY THE SHAH IN BRINGING BACK PEACE AND STABILITY TO IRAN.

IN A MEETING WITH THE U.S. ENERGY SECRETARY, SHELEZINGER, KUWITI OIL MINISTER STATES ON BEHALF OF ALL MID-EAST COUNTRIES AND IRAQ THAT THEY ALL HOPE FOR SHAH TO OVERCOME HIS DIFFICULTIES. THE VERY INTERESTING POINT IS THE COORDINATION THAT EXISTS BETWEEN ALL REACTIONARY ARAB REGIMES ON THE ONE SIDE, AND THE SEEMINGLY RADICAL IRAQ IN RENDERING SUPPORT TO THE SHAH, ON THE OTHER. OF COURSE, KUWAITIS HAVE BEEN AWARE OF THE DEPTH OF IRAQUI SLOGANS, AS IN DOCUMENT NO 61 KUWAITI OIL MINISTER EXPRESSES THAT IT IS NOT CORRECT FOR OIL TO BE EXPLOITED AS A WEAPON TO FURTHER POLITICAL GOALS. IN THE SAME DOCUMENT HE DESCRIBES IRAQIS AS THOSE WHO TALK A LOT BUT ACT VERY LITTLE. LATER THE U.S. EMBASSY OFFICIAL RECALLS THE VISIT OF JAPAN'S COMMERCE MINISTER TO THE AREA, WHERE THE TRADE LOVING KUWAITIS HAD DEMONSTRATED THEIR CONCERN OVER AMBIGUOUS JAPANESE POLICIES WITH REGARDS TO PALESTINE, BUT THE SO-CALLED RADICAL IRAQIS HAD ONLY DISCUSSED COMMERCIAL ISSUES WITH THE JAPANESE OFFICIAL.

ON DECEMBER 12,1979 OR THE FINAL DAYS OF THE PREVIOUS IRANIAN REGIME, SHAH DECIDES TO PURCHASE OIL FROM KUWAIT, AND THE KUWAITI OIL MINISTER RESPONDS POSITIVELY, HE STATES THAT KUWAIT AND OTHER (PERSIAN) GULF COUNTRIES WILL DO ANYTHING IN EMERGENCY SITUATIONS TO SHOW THEIR SUPPORT FOR THE SHAH. THE GRADUALLY INCREASING WEAKNESS OF SHAH'S REGIME ALERTS THEM AGAINST THE EXTENSION OF THE ISLAMIC REVOLUTION OF IRAN INTO OTHER REGIONS DOMINATED BY AMERICA. THEY BEGIN TO HAVE SECOND THOUGHTS ON THEIR OWN FUTURE IN A REGION WHERE ITS GENDARME CAN SO EASILY COLLAPSE, THEN, THEY DECIDE TO FIGHT THE ISLAMIC REVOLUTION ON JANUARY 8,1979, THE KUWAITI DEPUTY OIL MINISTER MEETS WITH HIS AMERICAN FRIENDS AND EXPRESSES THE IDEA THAT KUWAIT AND SAUDI ARABIA MUST FORGET THEIR TERRITORIAL DISPUTES, AND INSTEAD BEGIN TO CONFRONT THE ISLAMIC REVOLUTION. AT THE SAME MEETING HE EXPRESSES HIS SENSITIVITY WITH REGARDS TO THE SHI'ITE COMMUNITY WORKING IN THE OIL COMPANY OF KUWAIT.

IN THEIR ANALYSIS, AMERICANS ALSO STATE THAT KUWAITIS SHARE U.S. CONCERN OVER THE VICTORY OF THE ISLAMIC REVOLUTION. IN HIS MEETING WITH FRENCH FOREIGN MINISTER, THE KUWAITI EMIR EXPRESSES HIS DEEP CONCERN OVER THE INFILTRATION OF SHI'ITE UNREST INTO IRAQ. THIS EXPRESSION OF CONCERN WAS MADE AT A TIME WHEN THE ISLAMIC REPUBLIC HAD NOT YET DECLARED ITS EXISTENCE, AND THE ISSUE OF EXPORTING THE ISLAMIC REVOLUTION WAS STILL NOT BROUGHT FORTH BY THE ISLAMIC REPUBLIC OFFICIALS. THEREFORE, THESE HOSTILITIES WERE NOT PERPETRATED BY ISLAMIC REPUBLIC OFFICIALS' STATEMENTS, BUT BY THE PERSIAN GULF STATES' ANTI-POPULAR NATURE, SOMETHING THAT WAS THE MAIN CHARACTERISTIC OF THE SHAH'S REGIME. THE ONLY DIFFERENCE BETWEEN THEM AND THE SHAH WAS THAT THEY LACKED THE CULTURAL AND MANPOWER SUPPORT THE LATTER ENJOIED.

KUWAITI RULERS BELIEVE THAT ISLAM WILL ULTIMATELY JEOPERDISE THEIR EXISTENCE; THEY THEREFORE, PROVIDE IRAQ WITH FINANCIAL ASSISTANCE AND, A SUPPLY ROUTE, AND ASSIST THE IRANIAN ANTI-REVOLUTIONARIES, HARASS IRANIANS RESIDING IN KUWAIT, AND TAKE ALL POSSIBLE DIPLOMATIC ACTIONS AGAINST THE ISLAMIC REPUBLIC. THEY AND THEIR IMPERIALIST MASTERS FIND THE ESTABLISHMENT OF THE ISLAMIC RULE TO THE DETRIMENT OF THEIR OWN SOVREIGNTY.

OTHER WISE, THE HEADS OF PREVIOUS IRANIAN REGIME WOULD NOT HAVE BEEN ABLE TO PLUNDER HUGE AMOUNTS OF IRANIAN FUNDS THROUGH KUWAITI BANKS. IN HIS MEETING WITH THE IRANIAN CHARGE D'AFFAIR, KUWAITI FOREIGN MINISTER DENIED KUWAITI PARTICIPATION IN DIRECTING PROPAGANDA AGAINEST THE ISLAMIC REPUBLIC, WHEREAS IN DOCUMENT NO 35, A KUWAITI OFFICIAL TELLS AN AMERICAN EMBASSY OFFICIAL THAT KUWAIT HAD INSTRUCTED AL-ANBA PAPER TO CRITICIZE IRAN.

OTHER THAN KUWAIT'S POSITIONS VIS-A-VIS THE ISLAMIC REPUBLIC, LET US SEE HOW THE HISTORICAL BACKGROUNDS OF KUWAIT AND THE U.S. INTERESTS IN THAT SMALL COUNTRY ARE DESCRIBED BY PRESENT DOCUMENTS.

BEFOR 1946, OIL WAS UNKNOWN IN KUWAIT. ITS GOOD INHABITANTS FORMED A PORT SOCIETY MAINLY DEPENDENT ON FISHING AND LIMITED TRADE. SUCH A SOCIETY WAS OF NO INTEREST TO THE EUROPEAN AND AMERICAN PLUNDERERS, THEREFORE, IN THOSE DAYS, KUWAIT WAS IMMUNE TO FOREIGN AGGRESSION. THE DISCOVERY OF OIL BROUGHT ABOUT AN ACTUAL CATASTROPHE FOR THE KUWAITI NATION, BRITAIN WHICH WAS THE ONLY DOMINANT FOREIGN FORCE BEFORE 1961, WAS JOINED BY THE U.S. AND FRANCE IN EXPLOITING MUSLIM ASSETS IN ACCORDANCE WITH THE WORLD POLITICAL CONDITIONS.

CURRENT OIL INCOME ($ 12.8 BILLION IN 1977) HAS CHANGED PRESENT DAY KUWAIT TO SUCH AN EXTENT THAT NO SIGN OF THE PRE-OIL-PERIOD - KUWAIT IS OBSERVABLE TODAY. BUT IN ORDER TO UNDERSTAND BETTER THE REALITY BEHIND LUXIRIOUS AND EXPENSIVE CARS AND MODERN BUILDINGS ONE QUESTION COMES TO MIND AND THAT IS IF JUST THAT'S THE PRICE OF THE BLACK GOLD EXPLOITED IN THAT SMALL COUNTRY.

THE ABUNDANT RICHES OF THE KUWAITI RULERS HAVE ABSORBED AN IMMIGRANT POPULATION WHICH COMPRISES 50% OF KUWAITI INHABITANTS AND 70% OF ITS WORK-FORCE. THE U.S. MILITARY, PETROLEUM AND CULTURAL ADVISORS PREPARE PLANS AND PROJECTS THAT ARE TO BE CARRIED OUT BY IMMIGRANT ESPECIALISTS. THE NATIVE KUWAITIS ARE SUPPOSEDLY MANAGING THE SOCIETY IN BETWEEN THE ABOVE MENTIONED CLASSES. BUT IF THE OIL PRODUCTION OVER LOSES ITS VIABILITY NEITHER THE AMERICAN ADVISORS NOR THE ASIAN WORKERS WOULD BE INTERESTED TO LIVE IN THE HOT AND HUMID KUWAIT.

RELATIVE WELFARE UNDOUBTEDLY EXISTS IN KUWAIT WHICH IS PERHAPS THE RESULT OF THIS GOD-GIVEN FORTUNE. THERE IS A DIFFERNCE BETWEEN THE KUWAITI RULING PROCEDURE AND THAT OF THE SAUDIS WHICH IS POSSIBLY DUE TO THE SMALL KUWAITI POPULATION AND ITS GEOGRAPHIC LOCATION. UNLIKE THE SAUDI KING, EMIR OF KUWAIT DOSE NOT CONSIDER HIMSELF THE LEADER OF ALL MUSLIMS THROUGHOUT THE WORLD. THE SAUDIS CLAIM THAT THEY HAVE ADOPTED QURANIC LAWS AS THE CONSTITUTION IN SAUDI ARABIA BUT IN KUWAIT THIS CLAIM HAS NO PRACTICALITY, THEREFORE BY FORMING A PARLIAMENT FOR THE PROVISION OF A KUWAITI CONSTITUTION ITS RULERS CLAIM TO BE STRIVING TO ACHEIVE DEMOCRACY

THE IMMIGRANT POPULATION, WHO PLACE NATIVE KUWAITIS IN MINORITY, HAVE ALWAYS BEEN CONSIDERED AS A THREAT TO THE RULING FAMILY. TO NEUTRALIZE THIS THREAT, THE GOVERNMENT OF KUWAIT HAS EMBARKED ON SOME WELFARE ACTIVITIES. ACCORDING TO THEM, ALL FOREIGN CITIZENS ARE TO COMPARE THEIR STATUS QUO WITH THEIR LIVING CONDITION IN THEIR OWN COUNTRIES, THEREBY AVOIDING ANY POLITICAL MOVES THAT COULD DISRUPT THEIR PRESENT SITUATION. VARIOUS DOCUMENTS ARE RELATED TO THE POSSIBILITY OF POLITICAL DISRUPTIONS ESPECIALLY IN THE OIL SECTOR, WHICH HAS ALERTED THE U.S. AND EUROPE, DUE TO THE ISLAMIC REVOLUTION.

MATERIALIST U.S. AND KUWAITI ANALYSTS FINALLY PRESCRIBED BETTER LIVING CONDITIONS FOR PALESTINIANS AND SHI'ITE MUSLIMS AS A PREVENTIVE AGENT TO THE FORMATION OF ORGANIZED MOVEMENTS. THE MOST SURPRISING POINT IS THAT KUWAITI RULERS ARE FEARFUL OF MUSLIMS WHO HAVE COME TO THIS LAND IN ORDER TO ESCAPE THE OPPRESSIVE MEASURES OF THE REGIME OCCUPYING QUDS, BUT THESE RULERS JUSTIFY THEIR COEXISTENCE WITH THE EUROPEANS AND AMERICANS WHO HAVE OCCUPIED KEY GOVERNMENT POSITION IN KUWAIT.

IF THE ENGULFING SAUDI POVERTY IS NOT EVIDENT IN KUWAIT, ONE HAS TO UNDERSTAUD THE SOCIAL CONDITION, AND ASK, WHETHER THE GOVERNMENT OF KUWAIT HAS PROVIDED THIS MEAGER WELFARE IN ORDER TO PREVENT POLITICAL, SOCIAL GROWTH AND UNDERSTANDING ?

OTHER THAN WELFARE PRIVILEGES, KUWAITI NEWSPAPERS AND MASS MEDIA BRAVELY CRITICIZE REGIONAL POLITICS ESPECIALLY THOSE RELATED TO PALESTINIANS, PRETENDING THAT KUWAITI GOVERNMENT IS EXPLOITING ITS BOUNDLESS RICHES IN LIBERATING THE BELOVED QUDS. THIS IS DONE SO THAT THE KUWAITI RULERS' BELIEF IN THIS PRINCIPLE IS NOT QUESTIONED BY PALESTINIANS.

THE REACTIONARY ARAB REGIMES WHO ARE AWARE OF MUSLIM ARAB SENSITIVITIES WITH REGARDS TO PALESTINIAN CAUSE, CHANT SLOGANS AGAINST ISRAEL AND IN FAVOR OF PALESTINIAN SUPPORTERS (ESPECIALLY THE MODERATE FACTION). GOVERNMENT OF KUWAIT ALSO FOLLOWS THE SAME TRACK, IN ORDER TO DETRACT THE PUBLIC KUWAITI ATTENTION FROM INTERNAL PROBLEMS AND DISSATISFACTIONS , THEREBY ENGAGING THEM IN RHETORICAL ARGUMENTS BROUGHT FORTH BY VARIOUS PAPERS SOME PRINTED IN KUWAIT, OTHERS IN EUROPEAN CAPITALS IN ARABIC.

DOCUMENT NO 34 EXPLAINS THE CONTROL MECHANISM OF KUWAITI GOVERNMENT ON PRESS. ALTHOUGH THESE PAPERS CONTAIN POLITICAL VIEWS AND CRITIQUSE ESPECIALLY ON ARAB WORLD ISSUES, THEY NEVER QUESTION THE LEGALITY OF AL-SABAH RULING FAMILY. DISCUSSING ARAB ISSUES THAT ARE SUBSTANTIALLY RELATED TO THE PALESTINIAN PROBLEM IS ANOTHER MEANS OF PREVENTING PALESTINIANS RESIDING IN KUWAIT FROM DEMONSTRATING THEIR DISSATISFACTION WITH REGARDS TO THE EXISTING SOCIAL DISCRIMINATIONS. FOLLOWING THE TREACHERY OF SADAT TO THE PALESTINIAN CAUSE THROUGH THE SIGNING OF CAMP DAVID ACCORDS,KUWAITI PRESS SUPERFICIALLY DECLARED THEIR OPPOSITION TO THIS TREACHERY. THE DOCUMENT JUSTIFIES THIS PRESS ACTION IN THE FOLLOWING WORDS " EXPRESSLY AS A FROM OF ESCAPE VALVE, A WAY FOR THE LARGE PALESTINIAN COMMUNITY TO BLOW OFF STEAM WITH MINIMUM DAMAGE DONE."

THE SAME DOCUMENT FURTHER GOES ON THAT IF EVER A PAPER CRITICIZES AN INTERNAL PROBLEM IT IS CERTAINLY DONE UPON THE INSTRUCTION OF KUWAITI EMIR, WHERE AS, IF A MEMBER IS UNWANTEDLY ATTACKED, EMIR WILL ORDER THE RAPID SUPPRESSION OF THAT PARTICULAR PAPER.

SO FAR, IT HAS BECOME CLEAR THAT THERE IS NO DIFFERENCE BETWEEN THE SAUDI AUTOCRACY AND THE SO-CALLED KUWAITI DEMOCRACY, AS A MATTER OF FACT THEY ARE ONE AND THE SAME.

DUE TO SPECIFIC POPULAR AND TERRITORIAL CONDITIONS AND NOT THE KUWAITI RULING FAMILY'S MERCY ON THE PEOPLE,THEY HAVE SPENT PART OF THE OIL-INCOME ON PUBLIC AFFAIRS, ESTABLISHING A WIDE GAP BETWEEN THE LEAST EXISTING WELFARE IN KUWAIT AND THAT OF THE DEPRIVED ARAB PENNINSULAR MASSES.

IN OTHER WORDS THE GOVERNMENT OF KUWAIT IS TRYING TO PERPETRATE THE BOUNDLESS AND UNNECESSARY EXPENDITURES MADE BY AL-SABAH'S RULING FAMILY. FOR THE SAME REASON THE FREE-WORLD MARKET MUST BE SUPPLIED WITH KUWAITI OIL, AND THE KUWAITI OFFICIALS BELIEVE THIS TREND TO BE IMPOSSIBLE WITHOUT THE PARTICIPATION OF AMERICA AND HER ALLIES. THE SAME IDEA SHAPES OTHER KUWAITI POLICIES.

IN THE FIELD OF FOREIGN POLICY KUWAIT TRIES TO GET ALONG WITH ALL OTHER COUNTRIES THAT ARE SAMEHOW CAPABLE OF DISRUPTING THE PRESENT INTERNAL SITUATION IN KUWAIT. DESPITE THE HISTORICAL GREED OF ALL GOVERNMENTS THAT CAME TO POWER IN IRAQ,FOR EXAMPLE, KUWAIT, SAMEHOW, TRIED TO MAKE FRIENDS WITH IRAQUIS. ON THE OTHER HAND,KUWAIT IS THE ONLY COUNTRY ON THE PERSIAN GULF COAST WHICH HAS ALLOWED RUSSIA TO HAVE AN EMBASSY THERE, THEREBY ESTABLISHING DIPLOMATIC TIES WITH IT.

CONCERN OVER PROGRESSIVE AND RADICAL ARAB COUNTRIES' INTENTIONS ON THE EXTERNAL SECURITY SIDE, AND HORROR OVER THE INTENTIONS OF PALESTINIANS RESIDING IN KUWAIT HAVE COMPELLED IT TO SUPPORT THE PALESTINIAN CAUSE. IN THIS PERSUIT, KUWAITI RULERS WHO ARE AWARE OF THEIR OWN INCAPABILITY IN REPULSING AN EXTENSIVE MILITARY AGGRESSION, ENDEAVOR TO HINDER SUCH AGGRESSIONS UNTIL A FOREIGNER CAN COME TO THEIR RESCUE.

INVESTMENT ON INTERNAL INDUSTRIES WHICH IS COUPLED WITH AN INFLOW OF FOREIGN WORK-FORCE IS DIVERTED TO INVESTMENT OF KUWAITI FUNDS IN OTHER COUNTRIES, ESPECIALLY U.S.A. THE REASON IS THAT BESIDE THE SHORTAGE OF SPECIALIZED MANPOWER, KUWAIT IS UNWILLING TO ALLOW ITS NATIVE COMMUNITY TO BECOME MORE AND MORE OF A MINORITY. IT MAKES ALL POLITICAL MOVES , MILITARY POLICIES, ARMS PURCHASES, AND ADOPTS ALL DECISIONS REGARDING THE TRAINING OF ITS ARMED FORCES AND THE SELECTION OF PLACES FOR INVESTMENTS, ALWAYS TAKING INTO CONSIDERATION AMERICAN ATTITUDES AND CONDITIONS. CONSEQUENTLY, KUWAIT CONNOT MOVE QUTSIDE THE JURISDICTION REGULATED FOR IT AND OTHER SUBORDINATE STATES BY AMERICA.

A GLANCE AT THESE DOCUMENTS PROVE THAT THEY ARE NOT SHORT-TERM REPORTS BUT RELATED TO KUWAITI PETROLEUME ISSUES, ITS RATE OF PRODUCTION AND SITUATION REPORTS ON PETROLEUME INDUSTRIES,AMERICAN AND BRITISH COMPANIES THAT DOMINATE KUWAIT. IT IS CLEAR THAT AMERICA DESIRES THE OIL THAT EXISTS IN KUWAIT AND OTHER ISLAMIC COUNTRIES LIKE IT. TWO OF THE C.I.A DOCUMENTS DISCOVERED AT THE AMERICAN EMBASSY IN TEHRAN INCLUDE PETROLEUME ISSUES AND THE C.I.A CONTACTS IN THIS FIELD.

WHEN OIL PRICES INCREASE AS A RESULT OF WORLD ECONOMIC CONDITIONS PARTLY STIMULATED BY THE ISLAMIC REVOLUTION AND U.S. DOLLAR DEPRECIATES, GOVERNMENT OF KUWAIT IS THE LAST ONE TO ADJUST ITS PRICE OF OIL TO THAT OF OTHER OIL EXPORTING COUNTRIES.

ULTIMATELY THE DEPUTY OIL MINISTER OF KUWAIT ASSURES AMERICANS WHO ARE DISSATISFIED WITH THE PRICE INCREASE THAT IT WILL NOT JEOPARDIZE U.S. INTERESTS. THE AMERICAN MASTER WELL UNDERSTANDS THE POINT, SINCE THE KUWAITI OIL INCOME WILL EITHER GO TO FRIENDLY NATIONS IN THE FORM OF LOANS, OR WILL BE RETURNED TO AMERICAN AND ZIONIST CAPITALISTS IN THE FORM OF INVESTMENT IN PURCHASING LAND OR WEAPONRY.

IT IS A PITTY THAT A COUNTRY LIKE KUWAIT ENDOWED WITH ONE OF THE RICHEST RESOURCES, IS IN THE HANDS OF A GROUP OF CORRUPT PEOPLE WHO HAVE PLACED THEMSELVES WHOLEHEARTEDLY AT THE DISPOSAL OF THE ENEMIES OF ISLAM WHILE THEY COULD SUPPORT THE OBJECTIVES OF ISLAM AND THE MUSLIMS IN DESTROYING INFIDLES AND ENEMIES.KUWAITI RULERS AND THEIR AMERICAN MASTERS ARE TRULY FEARFUL OF THE EXPANSION OF ISLAMIC MOVEMENTS, AND THIS FEAR WILL INCREASE BECAUSE OF THE HOSTILITY OF THE " GREAT SATAN " AND ITS ALLIES AGAINST ALL ISLAMIC MOVEMENTS IN THE REGION. THE CONCLUSIONS REACHED BY ALL MATERIALIST AMERICAN ANALYSTS ON KUWAITI SITUATION CANNOT PREVENT KUWAITI PEOPLE FROM COMING UNDER THE INFLUENCE OF ISLAM.

THE SO-CALLED DEMOCRACY IS REVIVED AND THE NATIONAL ASSEMBLY IS REESTABLISHED IN KUWAIT EXACTLY AS A SIDE EFFECT OF THE ISLAMIC REVOLUTION OF IRAN. ACCORDING TO THESE DOCUMENTS, IT IS THE U.S. WHICH IS IN NEED OF KUWAIT AND THE KUWAITIS, AND IF THE KUWAITI POPULATION DECIDE THEY COULD EASILY THROW AMERICANS AND ALL OTHER COLONIALISTS OUT OF THEIR COUNTRY , BECAUSE, THE IMAM, THE LEADER OF THE OPPRESSED NATIONS HAS SAID:" GOD HAS NEVER DECREED THE DOMINATION OF INFIDLES OVER MUSLIMS. THUS MUSLIMS MUST NOT SURRENDER TO INFDLES DOMINATION. "

MAY ALL ISLAMIC TERRITORIES BE LIBERATED FROM THE CLUTCHES OF THE EASTERN AND WESTERN WORLD-MONGERS.

"MUSLIM STUDENTS FOLLOWING THE "
LINE OF THE IMAM.

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MEMORANDUM OF CONVERSATION

December 15, 1966

PARTICIPANTS: Qasim Omar EL-YAGOUT, Second Secretary, Embassy of Kuwait
Anton N. Myerges, Second Secretary
George B. Morley, Second Secretary

PLACE: Mr. Myerges' Office

SUBJECT: A Kuwaiti Diplomat in Tehran

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EL-YAGOUT, Qasim O.

Mr. EL-YAGOUT said that Kuwait will be making a move for increased oil revenues. It is studying the situation for the moment, and "if the Iranians can do it so can Kuwait." He shrugged off arguments used by the Shah that Iran needs the revenue for serious economic development projects and has a population exceeding those of her oil producing neighbors. He said Kuwait has its own development programs which have produced far better results than those of Iran. Moreover, Kuwait has only oil while Iran has many other resources as well. Iran's basic weakness has been its inability to utilize its resources skillfully.

Mr. El-Yagout is a painter who has exhibited his works a number of times before coming to Iran. He is also deeply interested in music (Mozart, Beethoven, and to some extent Brahms) and in poetry. He has studied in Salzburg and Vienna. He is strongly traditional-minded and looks down on anything that carriers the label of "modern" in the field of art. He makes little effort to conceal his orientation toward the UAR ("We /Arabs/ are nothing without Egypt") and his antipathy toward Iran (except for the scenery).

POL:ANMyerges/jaa

GROUP 3
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[illegible]

MEMORANDUM OF CONVERSATION

January 20, 1972

PARTICIPANTS: Mohammed A. Al-Ateeqi, Kuwaiti Charge, Tehran
Charles W. McCaskill, First Secretary of Embassy

DATE: January 17, 1972

PLACE: Caravanserai Restaurant

SUBJECT: 1. Absence of Kuwaiti Ambassador from Tehran.
2. Ending of Expulsions of Iranians from Iraq.

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1. Absence of Kuwaiti Ambassador from Tehran: (Background: Iranian Ambassador Designate to Kuwait Fereidun Zandfard returned to Tehran about ten days ago since the GOK -- in reaction to Iranian occupation of the Gulf Islands -- had never given him an appointment to present his credentials. Zandfard's departure was in response to "indications" from the GOK that it would be best if he temporarily returned to Tehran and he plans to remain in Tehran until such time as the GOK indicates its readiness to receive him. [Zandfard himself told us January 18 he "cannot be optimistic" about an early return to Kuwait and cannot say just when he might go back.] Shortly after Zandfard's return to Tehran, it was announced in the press that Kuwaiti Ambassador to Iran Al-Sabah had gone to Kuwait on vacation -- giving rise to wide speculation that Al-Sabah was ordered back to Kuwait as another sign of the GOK's displeasure with Iranian landings on the Gulf Islands.)

On January 17, I asked Al-Ateeqi, about his Ambassador's whereabouts, saying I had heard that he had gone to Kuwait. Al-Ateeqi confirmed Al-Sabah's absence, saying he had gone to Kuwait on vacation. I pushed him a bit, asking if the GOK had indeed ordered him home. Al-Ateeqi insisted that his Ambassador's departure had no political significance, saying that "now is a good time to take leave" since the weather in the Gulf is much more pleasant this time of the year than the weather of Tehran. Asked jokingly if the Ambassador's trip could be considered a "diplomatic vacation", he emphatically denied that this is the case and mumbled something to the effect that "the Iranians understand this". He refused to speculate how long the Ambassador will be away.

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2. Ending of Expulsions of Iranians from Iraq: I asked Al-Ateeqi if he could explain why the Iraqi Government had suddenly stopped expelling Iranians from Iraq. He replied that he would first like to say that those persons who were forced to leave Iraq were not "refugees". They were, he said, Iranians who entered Iraq illegally, seeking work, many of them without passports, entry visas, or work permits, and the Government of Iraq had a clear right to force them to leave. The same situation pertains to Kuwait, he said, where many Iranians go to seek work, most of them without documentation of any kind. The Government of Kuwait rounds these people up form time to time, he said, and forces them to leave. He gave the definite impression that his Government neither expects nor receives any reaction from Iran when these deportations from Kuwait occur.

Returning to why the flood of Iranians from Iraq -- whatever one labels them -- had suddenly stopped, Al-Ateeqi replied that "Russian intervention" had brought about Iraq's reversal of its policy. He did not specifically rule out other factors but he made it clear that he considered the Soviet role the dominant factor by saying that "no other country could have such influence on the Iraqi Government."

POL:CWMcCaskill:lap

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CONFIDENTIAL KUWAIT 1231

E.O. 11652: GDS
TAGS: ENRG, EFIN, OPEC
SUBJ: NEW KUWAIT OIL MINISTER COMMENTS ON OIL PRICES AND OPEC CONSULTATIVE MEETING

REF: (A) ABU DHABI 0461, (B) KUWAIT 0116 (NOTAL),

1. SUMMARY. KUWAIT'S NEW OIL MINISTER, SHAIKH ALI KHALIFA AL-SABAH, CORROBORATES THAT OPEC CONSULTATIVE MEETING IS BEING CONSIDERED FOR LATE MARCH/EARLY APRIL AND SAYS IT WILL BE HELD IN SWITZERLAND. HE BELIEVES THAT DECLINE IN REAL PRICE OF OIL AND IN VALUE OF DOLLAR JUSTIFY AN OIL PRICE RISE AND PLANS TO PUSH FOR THIS AT OPEC MEETING. END SUMMARY.

Hardly a good zone for # hollow

2. IN MEETING FEB. 28 (SEE SEPTELS) WITH NEW KUWAITI OIL MINISTER, SHAIKH ALI KHALIFA AL-SABAH, AMBASSADOR INQUIRED ABOUT PROPOSED OPEC CONSULTATIVE MEETING WHICH SHAIKH ALI'S PREDECESSOR HAD MENTIONED TO US (REF B). SHAIKH ALI SAID THAT OPEC MEMBERS WERE CONSIDERING MEETING BUT HAD NOT DECIDED WHETHER TO HOLD IT IN LATE MARCH OR EARLY APRIL. IT WOULD PROBABLY BE HELD IN SWITZERLAND AND WOULD BE TO DISCUSS "ALL THE SUBJECTS WHICH WERE PUT UNDER THE CARPET IN CARACAS." "I HOPE," HE SAID, "THERE WILL BE DISCUSSION OF A PRICE RISE. IF NOBODY ELSE RAISES THE SUBJECT, I WILL."

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3. MINISTER FELT IT WAS UNFAIR AND NOT TO THE ULTIMATE AMERICAN BENEFIT FOR THE US TO HOLD SAUDI ARABIA AND IRAN TO THEIR WORD REGARDING PRICE FREEZE. WHEN THEY MADE THEIR COMMITMENT, ALI KHALIFA SAID, THESE TWO COUNTRIES DID NOT EXPECT THE DOLLAR TO FALL AS BADLY AS IT HAD. HOLDING SAUDIS AND IRANIANS TO THEIR COMMITMENT WOULD NOT BE IN U.S. INTEREST FOR FOLLOWING THREE REASONS: (A) BECAUSE OF THE DECLINE OF THE DOLLAR AND THE PRICE FREEZE, ALL OPEC COUNTRIES WERE "FEELING (BUDGETARY) PINCH." THIS WOULD LEAD TO INEVITABLE PRESSURE FOR A PRICE RISE. (B) REDUCTION OF REVENUE WOULD LIKELY HAVE ADVERSE EFFECT ON THEIR FOREIGN ASSISTANCE LEVELS. (C) ALL INDICATIONS WERE THAT THE PRICE RISE WAS INEVITABLE AND, THEREFORE, THE LONGER IT IS DELAYED THE MORE DRASTIC IT WOULD BE. MINISTER SAID THE COULD ACCEPT THE IDEA OF FREEZING PRICE IN REAL TERMS BUT NOT IN NOMINAL TERMS. TO DO SO, WOULD MERELY BE TO PROVIDE DISINCENTIVE AGAINST THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES, WHICH WAS NOT IN OIL CONSUMERS' INTEREST.

4. AMBASSADOR POINTED OUT THAT, WHATEVER THE LONG TERM ARGUMENTS, THE FREEZE IN OIL PRICES NOW WAS VERY IMPORTANT IN ORDER TO GIVE THE WORLD ECONOMY A BREATHING SPELL. MINISTER RESPONDED THAT HE WAS QUITE FAMILIAR WITH THESE ARGUMENTS, BUT WAS CONVINCED FROM VARIOUS AMERICAN STUDIES HE HAD READ, INCLUDING THOSE OF BROOKINGS, CITY CORP., CHASE AND OTHERS, THAT THE EFFECT OF A PRICE INCREASE ON THE WORLD ECONOMY WOULD BE MINIMAL AND ACCEPTABLE. EVEN WITHOUT CHANGES IN MONETARY OR FISCAL POLICY, HE CLAIMED OECD ECONOMIES COULD ABSORB AN OIL PRICE INCREASE.

5. NOTING THAT ECONOMISTS OFTEN DISAGREE, AMBASSADOR EMPHASIZED THAT USG FELT STRONGLY THAT PRICE FREEZE SHOULD BE MAINTAINED FOR THE YEAR, OF WHICH, AFTER ALL, ONLY TWO MONTHS HAD PASSED. MOREOVER, THE LARGE U.S. OIL IMPORT BILL HAS HAD A NEGATIVE EFFECT ON US DOLLAR.

6. MINISTER THEN ASKED WHETHER USG INTENDED TO ASK IRAN AND SAUDI ARABI TO STICK TO THEIR PROMISE REGARDING PRICE FREEZE EVEN IN LIGHT OF THE DETERIORATION OF THE DOLLAR. AMBASSADOR REPLIED THAT HE THOUGHT IT UNLIKELY WE WOULD CHANGE OUR POSITION IN FAVOR OF AN OIL PRICE FREEZE THROUGHOUT 1978. HE BELIEVED SHAH WOULD STAND BY HIS COMMITMENT TO PRES. CARTER AND THAT THE SAUDIS WOULD CONTINUE TO SUPPORT SUCH A PRICE FREEZE. MINISTER ENDED DISCUSSION OF SUBJECT BY SAYING THAT, IN HIS VIEW, WHILE THE DOLLAR MIGHT IMPROVE SOMEWHAT BY THE SUMMER OF 1978, IT WOULD PROBABLY THEN DECLINE TO ITS PRESENT LOW LEVELS LATER IN THE YEAR. THEREFORE, IT SEEMED FAIR TO SEEK PRICE ADJUSTMENT NOW.

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7. COMMENT: AS THIS AND SEPTELS INDICATE, MINISTER IS SINGING QUITE A DIFFERENT TUNE FROM HIS PREDECESSOR. HE BELIEVES THAT A DECLINING REAL PRICE FOR OIL DOES NOT MEAN THAT KUWAIT SHOULD INCREASE PRODUCTION AND SALES. RATHER, KUWAIT SHOULD INCREASE PRICES EVEN IF THIS MEANS DECREASING PRODUCTION. AS FORMER MIN FIN UNDERSECRETARY, HE IS INTENSELY INTERESTED IN THE FINANCIAL SIDE OF OIL QUESTIONS AND HAS BEEN NAMED A MEMBER OF A NEW GOK MINISTERIAL COMMITTEE SET UP TO STUDY THE "DOLLAR PROBLEM," CONSISTING OF, BESIDES OIL MINISTER, MINISTERS OF FINANCE, PLANNING AND COMMERCE. HIS VIEWS, REFINED BY CABINET LEVEL DISCUSSION, COULD BECOME TEMPERED SOMEWHAT BY THE TIME OF THE LATE MARCH/EARLY APRIL OPEC CONSULTATIVE MEETING. KUWAIT'S 2 MILLION B/D PRODUCTION GIVES IT CONSIDERABLY LESS CLOUT THAN LARGER SAUDI AND IRANIAN PRODUCTIONS, BUT, IF THERE IS ANY SIGN OF WEAKENING OF EITHER OF THESE TWO GIANTS ON THE PRICE FREEZE QUESTION, SHAIKH ALI WILL TRY TO MAKE THE MOST OF IT AT THE NEXT OPEC MEETING.

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ACTION: **INCOMING TELEGRAM** CONTROL NO. 4001

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INFO:
AMB 1
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CF/AB

LIMDIS

P 151402Z MAR 78
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 0458
INFO RUQMBI/AMEMBASSY ABU DHABI 3805
RUDKEBQ/AMEMBASSY BERN 0046
RUFHOL/AMEMBASSY BONN PRIORITY 0406
RUFHBS/AMEMBASSY BRUSSELS 0506
RUQMRA/AMEMBASSY JIDDA 5388
RUDTC/AMEMBASSY LONDON PRIORITY 2969
RUFNPS/AMEMBASSY PARIS PRIORITY 1874
RUQMHR/AMEMBASSY TEHRAN 4228
RUEHKO/AMEMBASSY TOKYO PRIORITY 0490
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E.O. 11652: XGDS-1
TAGS: EFIN, KU
SUBJ: GOK SUSPENDS PURCHASE OF FOREIGN CURRENCIES

REF: KUWAIT 1338 (NOTAL)

1. AT MARCH 14 RECEPTION IN HONOR OF RETIRING COMMERCIAL BANK CHAIRMAN (AT WHICH GUEST LIST VALUED IN MULTI-MILLIONS), AMBASSADOR HAD OPPORTUNITY FOR VERY BRIEF EXCHANGE WITH KHALID ABU SA'UD, AMIR' FINANCIAL ADVISOR. ABU SA'UD (PLEASE PROTECT) INFORMED HIM THAT GOVERNMENT HAD ISSUED INSTRUCTIONS TO ITS AGENTS THAT SAME DAY NOT TO BUY FOREIGN CURRENCIES WITH KUWAITI-HELD DOLLARS AND TO HOLD PRESENT INVESTMENT POSITIONS. AMBASSADOR EXPRESSED APPRECIATION FOR THIS EXAMPLE OF KUWAITI COOPERATION.

2. COMMENTING ON PRESENT DOLLAR RATE OF EXCHANGE, ABU SA'UD FELT THAT THE ADDITIONAL $2 BILLION (ON TOP OF PREVIOUS $2 BILLION) FROM US-GERMAN SWAP AS RECENTLY AGREED BY US AND FRG WILL BE INSUFFICIENT TO PROP UP DOLLAR UNDER PRESENT CONDITIONS. HE BELIEVED THAT AMOUNTS UP TO $10 BILLION WOULD BE NEEDED TO STABILIZE THE DOLLAR AT THIS TIME.

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INCOMING TELEGRAM CONTROL NO. 5128

ACTION: Econ-5

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INFO: AMB 1, DCM, SA, POL 2, ECON, PM 1, USIS 1, CONS, OR 1, ADM, GSO, BF, PER, HU, RSO, MSG, TSO, SCRO, CRO, TCU, MP, DAO, MAAG, AGR, DEA, IRS, TCTR, CEOC, CEOR, CRU 1, SHIR 1, TABR, ISFA, 1 ARY

R 050845Z APR 78
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 6220
INFO RUTAIJ/AMEMBASSY ABIDJAN 0016
RUOMBI/AMEMBASSY ABU DHABI 3836
RUFHRS/AMEMBASSY ALGIERS 0769
RUQMKU/AMEMBASSY AMMAN 2541
ZEN/USINT BAGHDAD
ZEN/AMEMBASSY BEIRUT
RUFHOL/AMEMBASSY BONN 0413
RUFHBS/AMEMBASSY BRUSSELS 0522
RUEHEG/AMEMBASSY CAIRO 1821
RUESRG/AMEMBASSY CARACAS 0357
RUTADR/AMEMBASSY DAKAR 0019
RUQMDM/AMEMBASSY DAMASCUS 1162
RUQMOD/AMEMBASSY DOHA 1798
RUFHGV/AMEMBASSY GENEVA 0171
RUSBQD/AMEMBASSY ISLAMABAD 0187
RUQMRA/AMEMBASSY JIDDA 5434
RUQMKM/AMEMBASSY KHARTOUM 0493
RUDTC/AMEMBASSY LONDON 2985
RUQNMT/AMEMBASSY MUSCAT 1402
RUQMNI/AMEMBASSY NAIROBI 0148
RUSBAE/AMEMBASSY NEW DELHI 0322
RUEHDT/USMISSION USUN NEW YORK 0676
RUFNPS/AMEMBASSY PARIS 1885
RUDKBT/AMEMBASSY RABAT 0490
RUFHRO/AMEMBASSY ROME 0425
RUQMHR/AMEMBASSY TEHRAN 4249
RUEHKO/AMEMBASSY TOKYO 0493
RUQMTI/AMEMBASSY TRIPOLI 1087
RUDKKR/AMEMBASSY TUNIS 0573
RUEATRS/DEPT OF TREASURY
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C O N F I D E N T I A L KUWAIT 1990

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E.O. 11652: GDS
TAGS: EFIN, KU, OPEN

SUBJ: KUWAIT FOREIGN ASSISTANCE, 1962-1977

1. SUMMARY: INTERNAL KUWAIT FINANCE MINISTRY REPORT INDICATES THAT, SINCE INDEPENDENCE (1961 AND THROUGHT 1977, KUWAIT HAS GIVEN TOTAL OF $6.2 BILLION IN AID ($2.5 BILLION IN GRANTS, $2 BILLION IN LOANS AND $1.7 BILLION THROUGH MULTILATERAL INSTITUTIONS. KUWAIT CONTRIBUTED AN AVERAGE OF 9.4 PERCENT OF ITS GNP IN AID DURING 1970-1977, OR ROUGHLY $11,000 PER

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KUWAITI OVER THIS PERIOD. FACT THAT TWO-THIRDS ($2.9 BILLION OUT OF TOTAL OF $4.5 MILLION IN BILATERAL LOANS AND GRANTS WAS GIVEN BETWEEN 1974 AND 1977 INDICATES UPWARD TREND IN ASSISTANCE SINCE 1973 OIL PRICE RISE. INCREASE IN LOANS TO NON-ARAB COUNTRIES FROM 35 PERCENT OF TOTAL LOANS IN 1975 TO 48.5 PERCENT IN 1977 INDICATES BROADENING OF KUWAITI AID TO NON-ARAB WORLD. REPORT DOES NOT INCLUDE FIGURES FOR "DEPOSITS" MADE WITH LDC CENTRAL BANKS WHICH ARE UNLIKELY TO BE WITHDRAWN, AND MAY NOT INCLUDE $700 MILLION CONTRIBUTION TO GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT (GODED. HENCE, FIGURES CITED ARE, IF ANYTHING, CONSERVATIVE, AND SHOULD BE CONSIDERED MINIMUM ESTIMATE OF KUWAITI FOREIGN ASSISTANCE. END SUMMARY.

2. ECON CHIEF RECENTLY OBTAINED INTERNAL KUWAIT FINANCE MINISTRY STUDY, DATED FEB. 15, 1978, WHICH PROVIDES EXTENSIVE STATISTICS ON ALL KUWAITI ASSISTANCE FROM YEAR AFTER INDEPENDENCE WHEN SUCH AID BEGAIN (1962) THROUGH DEC. 31, 1977. DETAILS, AND COPY OF REPORT, WILL FOLLOW BY AIRGRAM. SIGNIFICANT INFORMATION PROVIDED BY STUDY IS AS FOLLOWS.

3. TOTAL ASSISTANCE PROVIDED: SINCE 1962 KUWAIT HAS PROVIDED TO LDC'S APPROXIMATELY $2 BILLION IN LOANS AND $2.5 BILLION IN GRANTS. IT HAS CONTRIBUTED $1.7 BILLION TO MULTILATERAL AID INSTITUTIONS, FOR A TOTAL OF $6.2 BILLION IN FOREIGN ASSISTANCE. MOST OF THIS ($5.45 BILLION) WAS GIVEN IN THE PERIOD 1970-1977.

4. AID TO GNP RATIO. TOTAL KUWAIT GNP FOR THE PERIOD 1970 THROUGH 1977 IS ESTIMATED TO BE $58.3 BILLION. THE $5.45 BILLION IN AID CITED ABOVE MEANS KUWAIT, ON THE AVERAGE, CONTRIBUTED 9.4 PERCENT OF ITS GNP IN AID DURING THE PERIOD 1970 THROUGH 1977. SINCE THE AID FIGURE DOES NOT INCLUDE LARGE "DEPOSITS" MADE WITH LDC CENTRAL BANKS WHICH ARE UNLIKELY TO BE RETURNED, THE ACTUAL AID FIGURE, AND AID AS A PERCENTAGE OF GNP, IS PROBABLY HIGHER.

5. PER CAPITA AID: THE TOTAL OF KUWAIT NATIONALS AT THE END OF 1977 WAS ABOUT HALF A MILLION, LEADING TO A ROUGH FIGURE OF $11,000 IN AID GIVEN PER KUWAITI OVER 1970-1977. SINCE KUWAITI POPULATION INCREASED BY 6 PERCENT ANNUALLY OVER THE PERIOD 1970-1977, THE PER CAPITA AID FIGURE IS IN FACT HIGHER. FOR CY 1977, TOTAL LOANS AND GRANTSIN AID AMOUNTED TO 7.50 MILLION, OR $1,500 IN AID GIVEN PER KUWAITI. THIS FIGURE DOES NOT INCLUDE ASSISTANCE THROUGH MULTILATERAL INSTITUTIONS, WHICH BROUGHT TOTAL ASSISTANCE IN 1977 TO WELL OVER $1 BILLION, OR WELL OVER 2,000 PER CAPITA IN AID.

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6. EXHAUSTIBLE RESOURCE. STATE FINANCE MINISTRY STUDY RIGHTLY POINTS OUT THAT KUWAIT'S AID IS BASED ON DEPLETION OF THE EXHAUSTIBLE RESOURCE ON WHICH KUWAIT'S ECONOMY IS BASED, OIL. HENCE THE COUNTRY'S AID DRAIN IS GREATER THAN THAT FOR DEVELOPED COUNTRIES WHOSE ECONOMIES ARE LARGELY BASED ON RENEWABLE RESOURCES AND ECONOMIC ACTIVITY.

7. TRENDS. BECAUSE CONTRIBUTIONS TO MULTILATERAL INSTITUTIONS ARE NOT BROKEN DOWN BY YEAR IN THE STUDY, PRECISE FIGURES ON TRENDS IN AID PER YEAR ARE NOT AVAILABLE. HOWEVER THE FACT THAT TWO-THIRDS ($2.9 BILLION) OF THE TOTAL OF $4.5 BILLION IN LOANS AND GRANTS SINCE 1962 WERE GIVEN IN THE PERIOD 1974-1977 IS INDICATIVE OF AN UPWARD TREND IN ASSISTANCE SINCE THE 1973 OIL PRICE RISE. THE MODERATE INCREASE IN ANNUAL GRANTS AND LOANS FROM $656 MILLION IN 1975 TO $750 MILLION IN 1977 PROBABLY UNDERSTATES THE TREND, SINCE KUWAITI CONTRIBUTIONS TO MULTILATERAL AID FACILTIES HAVE INCREASED IN THE LAST 2-3 YEARS.

8. MORE AID TO NON-ARAB COUNTRIES. OF TOTAL LOANS AND GRANTS GIVEN IN THE PERIOD 1962 THROUGH 1977, THE REPORT INDICATES THAT 87.9 PERCENT WENT TO ARAB COUNTRIES, 4.5 PERCENT TO AFRICAN COUNTRIES, AND 7.6 PERCENT TO "OTHER" (MOSTLY ASIAN) COUNTRIES. GRANTS CONTINUE TO GO ALMOST ENTIRELY (98.8 PERCENT IN 1977) TO ARAB COUNTRIES. LOANS, HOWEVER, HAVE INCREASINGLY GONE TO NON-ARAB COUNTRIES (48.5 PERCENT IN 1977 COMPARED TO 35 PERCENT IN 1975).

9. COMMENT. IN ITS TABLE ON "KUWAIT SUBSCRIPTION TO THE CAPITAL OF INTERNATIONAL AND REGIONAL INSTITUTIONS", REPORT MAKES NOT MENTION OF $700 MILLION KUWAIT CONTRIBUTION TO THE GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT (GODE). THIS, AND FACT THAT NO FIGURES ARE GIVEN FOR "DEPOSITS" WITH LDC CENTRAL BANKS WHICH ARE UNLIKELY TO BE WITHDRAWN, LEADS US TO THE CONCLUSION THAT FIGURES OF FINANCE MINISTRY REPORT ON KUWAIT FOREIGN ASSISTANCE ARE, IF ANYTHING, QUITE CONSERVATIVE AND SHOULD BE CONSIDERED A MINIMUM ESTIMATE OF KUWAIT FOREIGN ASSISTANCE FOR THE PERIOD 1962 THROUGH 1977.

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ACTION

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INCOMING TELEGRAM CONTROL NO. 6932

INFO:
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R 071104Z MAY 78
FM AMEMBASSY KUWAUZ CONFIDENTIAL
TO RUEHC/SECSTATE WASHDC 889
INFO RUQMEI/AMEMBASSY ABU DHABI 3986
RUFHRS/AMEMBASSY ALGIERS 787
RUEHCR/AMEMBASSY BANGUI 01
RUEHCR/AMEMBASSY BRIDGETOWN 03
RUESJS/AMEMBASSY CARACAS 364
RUNJGM/AMEMBASSY COLOMBO 74
RUQMDJ/AMEMBASSY DJIBOUTI 36
RUQMOD/AMEMBASSY DOHA 1850
RUEHCR/AMEMBASSY GABORONE 04
RUESGT/AMEMBASSY GUATEMALA 05
RUSBLK/AXEMBASSY KABUL 99
RUMJHT/AMEMBASSY KATHMANDU 43
RUQMKM/AMEMBASSY KHARTOUM 513
RUMJKL/AMEMBASSY KUALA LUMPUR 28
RUQMAM/AMEMBASSY MANAMA 3220
RUTAMA/AMEMBASSY MONROVIA 19
RUEHCR/AMEMBASSY NASSAU 06
RUSBAE/AMEMBASSY NEW DELHI 330
RUFNYK/AMEMBASSY NOUAKCHOTT 84
RUEHCR/AMEMBASSY PARAMARIB 002
RUESPR/AMEMBASSY PORT AU PRINCE 13
RUQMNS/AMEMBASSY SANA 965
RUESSD/AMEMBASSY SANTO DOMINGO 05
RUQMTI/AMEMBASSY TRIPOLI 1112
RUQMHR/AXEMBASSY TEHRAN 4316
RUEHDT/USMISSION USUN NEW YORK 690
RUQMMT/AXEMBASSY MUSCAT 1443
RUEHMT/AMCONSUL MONTREAL 24
RUQMRA/AMEMBASSYSJIDDA 5513
RUDTC/AMEMBASSY LONDON 3025
RUFNPS/AMEMBASSY PARIS 1904
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C O N F I D E N T I A L KUWAIT 2729

MONTREAL FOR USREP TO ICAO

E.O. 11652: GDS
TAGS: PINS, EAIR
SUBJECT: KUWAIT ACCESSUBN TO ANTI-HIJACKINGCONVENTIONS

REF: STATE 90969

1. I CALLED ON CROWN PRINCE/PRIMEMINISTER SHAIKH SA'AD AL-ABDULLA ON MAY 6 AT MY REQUEST. I HAD NOT MADE A PROPER CALL ON HIM SINCE HIS ELEVATION TO HIS NEW POSITION AND WANTED TO TAKE THIS OPPORTUNITY TO RAISE A NUMBER OF MATTERS; PRINCIPAL AMONG WHICH WAS QUESTION OF KUWAITI ACCESSION TO THE ANTI-HIJACKING CONVENTIONS.

2. I PREFACED MY REMARKS ON THIS SUBJECT BY NOTING THAT SHAIKH SA'AD WAS KUWAIT'S LEADING EXPERT ON HIJACKING.

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HAVING HANDLED ON BEHALF OF THE GOVERNMENT WHILE MINISTER OF INTERIOR THREE HIJACKING INCIDENTS INVOLVING KUWAIT. I DREW HIS ATTENTION TO THE THREE HIJAKKING CONVENTIONS AND TO THE FACT THATKUWAITHAD ONLY SIGNED THE HAGUE CONVENTION SO FAR. SHAIKH SA'AD WAS AWARE OF THE FACT THAT KUWAITHADSIGNED ONE CONVENTION BUT WAS UNCLEAR AS TO WHICH ONE AND TO THE STATUS OF THE OTHERS. I TOLDHIM IT WAS MY UNDERSTANDING THAT THE FOREIGN MINISTRY WAS PREPARED TO RECOMMEND THE SIGNING AND RATIFICATION OF THE THREE CONVENTIONS TO THE COUNCIL OF MINISTERS, BUT IT WAS AWAITING THE RESOLUTION OF CERTAIN TECHNICALITIES INVOLVED IN THIS PROCESS.

3. CONTINUING MY PREEENTATION, I POINTEDTO THE IMPORTANCE OF ALL STATES RATIFYING THESE CONVENTIONS IN ORDER TO HELP REDUCE ACTS OF UNLAWFUL INTERFERENCE WITH INTERNATIONAL CIVIL AVIATION. I MADE REFERENCETO THE UNGA RESOLUTION 32/8 AND TO THE FACT THAT THE US, UK AND FRANCE WERE ASKED BY OTHER SIGNATORIES TO RAISE THIS MATTER WITH KUWAIT AND SEVERAL OTHER NATIONS. I NOTED THAT THE BRITISH AMBASSADOR HAD MET WITH FOREIGN MINISTRY UNDER-SECRETARY RASHID AW-RASHID ON MAY 2 ON THIS SUBJECT. I OBSERVED THAT, WHILE INITIALLY THERE HAD BEEN RELUCTANCE TO SIGN THESE CONVENTIONS BECAUSE OF THE FEELING THAT THEY WERE ANTI-PALESTINIAN IN NATURE, I BELIEVED THAT THIS WAS NO LONGERA PROBLEM SINCE IT WAS CLEAR THAT THESE CONVENTIONS HAD A WIDER OBJEKTIVE. IN FACT, PLO LEADER YASSER ARAFAT HAD HIMSELF, ON A NUMBER OF OCCASIONS, CONDEMNED HIJAKKING. I ALSO REMINDED SHAIKH SA'AD THAT KUWAIT'S MAJOR NEIGHBORS, IRAN AND SAUDI ARABIA, HAD BOTH SIGNED AND RATIFIED ALL THREE CONVENTIONS AND THOUGHT THAT THERE SHOULD BE NO REASON WHY KUWAIT COULD NOT ALSO DO SO. IT WAS MY IMPRESSION THAT THE OTHER GULF STATES, WHICH HAD NEITHER SIGNED NOR RATIFIEDTHESECONVENTIONS, WERE PROBABLY WAITING TO SEE WHAT KUWAUT WOULD DO IN THIS RESPECT.

4. THE PRIME MINISTER MADE NO SUBSTANTIVE COMMENT ABOUT THE MATTER, BUZ DEMONSTRATED INTEREST DURING MY PRESENTATION. HE SAID THAT HE WOULD DISCUSS THIS MATTER WITH TTE FOREIGN MINISTER THE FOLLOWING DAY (ON WHICH THE COUNCIL OF MINISTERS MEETING WAS ALSO SCHEDULED TO TAKE PLACE). HOPEFULLY THIS SUBJECT WILL BE INTRODUCED INTO THE COUNCIL'S DELIBERATIONS.

5. THEBRITISH AMBASSADOR INFORMED US THATUNDERSECRETARY RASHID AL-RASHID HAD INDICATED GOK SUPPORT FOR THE AIM OF

THESE CONVENTIONS, BUT NOTED THE CONNECTION WITH THE PALESTINIANS MENTIONED ABOVE. THE BRITISH AMBASSADOR STRESSED THAT THESE CONVENTIONS WERE DIRECTED AGAINST LAWLESSNESS FROM ANY QUARTER AND HAD NO POLITICAL MOTIVATION. HE SUGGESTED THAT COUNTRIES LIKE KUWAIT, WHICH TOOK THEIR INTERNATIONAL RESPONSIBILITIES SERIOUSLY, COULD GIVE A LEAD TO OTHERS.

6. THE EMBASSY WILL CONTINUE TO FOLLOWTHIS MATTER AND WOULD APPRECIATE BEING INFORMED OF ANY PROGRESS MADE AS THE RESULT OF REPRESEFTATIONS TO OTHER COUNTRIES, SO THAT THESE EXAMPLES COULD BE USED AS NECESSARY TO ENCOURAGE KUWAIT ACTION IN THIS RESPECT.

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RR RUQMHR
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R 260541Z JUL 78
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 1491
INFO RUQMBI/AMEMBASSY ABU DHABI 4039
RUEHAM/AMEMBASSY AMMAN 2659
RUEHEG/AMEMBASSY CAIRO 1983
RUQMOD/AMEMBASSY DOHA 1952
RUQMRA/AMEMBASSY JIDDA 5646
RUDTC/AMEMBASSY LONDON 3101
RUQMMT/AMEMBASSY MUSCAT 1521
RUQMAM/AMEMBASSY MANAMA 3412
RUQMNS/AMEMBASSY SANA 1024
RUQMHR/AMEMBASSY TEHRAN 4398
RUQMYA/USLO RIYADH 189
ZEN/USINT BAGHDAD POUCH
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C O N F I D E N T I A L KUWAIT 4217

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ACTION
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E.O. 11652: GDS
TAGS: PEPR, ENRG, KU, YE, YS
SUBJECT: ARAB LEAGUE "BOYCOTT" OF PDRY: OIL SUPPLIES

REF: (A) KUWAIT 4193 (NOTAL), (B) KUWAIT 4058 NOTAL

1. DURING CALL ON KUWAIT OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH JULY 25 CHARGE AND ECON CHIEF ASKED HIM WHETHER KUWAIT HAD CUT OFF OIL SUPPLIES TO ADEN PURSUANT TO THE JULY 2 ARAB LEAGUE FOREIGN MINISTERS' DECISION TO FREEZE RELATIONS WITH PDRY.

2. MINISTER EXPLAINED SITUATION AS FOLLOWS: FOR SOME TIME PRIOR TO ARAB LEAGUE MEETING, KUWAIT AND IRAQ HAD USED ADEN REFINERY FOR SOME OF THEIR CRUDE, WITH RESULTING PRODUCTS BEING SOLD TO YAR. (PDRY NEVER OWNED EITHER THIS CRUDE OR ITS PRODUCT.) THE ONLY ADVANTAGE TO PDRY WAS THAT KUWAIT'S PROCESSING OIL THERE RAISED THE PERCENTAGE OF REFINERY CAPACITY BEING USED, THEREBY LOWERING COSTS FOR PDRY'S ADEN REFINERY. ARRANGEMENT WAS IN FACT LUCRATIVE FOR KUWAIT, MINISTER EXPLAINED, SINCE NORTH YEMENI MARKET WAS A GOOD ONE AND REFINING CRUDE IN ADEN CUT TRANSPORT COSTS, WHICH WERE HIGHER FOR PRODUCTS THAN FOR CRUDE. FURTHER TWIST WAS THAT KUWAIT MARKETED PRODUCTS PRODUCED FROM ADEN REFINERY ON THE BASIS OF OIL IRAQ HAD AGREED TO SUPPLY THERE UNDER A SWAP ARRANGEMENT IN WHICH IRAQ WAS COMPENSATED BY PROVISION OF REFINED PRODUCTS FROM KUWAIT'S SHUAIBA REFINERY TO IRAQ.

3. ALI KHALIFA SAID THAT, SINCE THE ARAB LEAGUE COUNCIL DECISION, KUWAIT HAD "CONGEALED" ITS CRUDE SUPPLY RELATIONSHIP WITH ADEN, PENDING FUPTHER REVIEW. THIS MEANT THAT KUWAIT IS NO LONGER SUPPLYING OIL TO THE ADEN REFINERY AND IS SHIPPING REFINED PRODUCTS FROM ITS SHUAIBA REFINERY IN KUWAIT DIRECTLY TO THE YAR AT A HIGHER COST TO KUWAIT. MINISTER'S UNDERSTANDING IS THAT IRAQ HAS ALSO SUSPENDED USE OF ADEN REFINERY FOR IRAQI CRUDE.

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TO RUEHC/SECSTATE WASHDC 1523
INFO RUQMBI/AMEMBASSY ABU DHABI 4044
RUEHAM/AMEMBASSY AMMAN 2664
ZEN/USINT BAGHDAD
RUEHEG/AMEMBASSY CAIRO 1989
RUQMOD/AMEMBASSY DOHA 1956
RUQMRA/AMEMBASSY JIDDA 5652
RUQMKM/AMEMBASSY KHARTOUM 537
RUDTC/AMEMBASSY LONDON 3103
RUQMAM/AMEMBASSY MANAMA 3417
RUQMMT/AMEMBASSY MUSCAT 1525
RUQMYA/USLO RIYADH 3191
RUQMNS/AMEMBASSY SANA 1026
RUQMHR/AMEMBASSY TEHRAN 4405
BT
C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 4328

ACTION:
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INFO:
AMB
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E.O. 11652: GDS
TAGS: EAID, YS, PDRY
SUBJ: NUANCED "CUT-OFF" IN ARAB AID TO SOUTH YEMEN

REF: (A) JULY 13, 1978 ECONOMIC INTELLIGENCE WEEKLY REVIEW, (B) KUWAIT 4217 (NOTAL), (C) KUWAIT 4193 (NOTAL), (D) KUWAIT 4058 (NOTAL).

1. SUMMARY. DESPITE JULY 2 ARAB LEAGUE "BOYCOTT" OF SOUTH YEMEN, ALLEGED CUTOFF IN AID BY KUWAIT AND KUWAIT-BASED INSTITUTIONS TO PDRY HAS ONLY BEEN PARTIAL. KUWAIT'S CENTRAL BANK TELLS US THAT THERE HAS BEEN NO INTERRUPTION OF BANKING RELATIONS WITH ADEN. THE KUWAIT-BASED ARAB FUND IS NOT ACTIVELY CONSIDERING ANY NEW ASSISTANCE TO PDRY, BUT THIS IS DUE TO A GENERAL SLOW-DOWN OF ACTIVITY, NOT BECAUSE OF ANY ACTION AGAINST PDRY PER SE. KUWAIT FUND SOURCES DO NOT BELIEVE PAY-OUTS WILL BE STOPPED ON EXISTING LOANS TO PDRY, AND IT MAY BE SOME TIME BEFORE FUND HAS TO CONSIDER NEW LOANS TO PDRY. ONLY SPECIFIC HALT IN AID TO PDRY WE COULD FIND WAS CUT IN KUWAITI EDUCATION AND HEALTH ASSISTANCE FROM APPROXIMATELY $9 MILLION TO $1.5 MILLION FOR FY 1979. CALL BY PDRY'S FINANCE MINISTER ON KUWAIT'S AMIR JULY 30 INDICATES AT A MINIMUM THAT ECONOMIC/FINANCIAL DISCUSSIONS BETWEEN THE TWO COUNTRIES CONTINUE.
END SUMMARY.

2=11167

2. ARTICLE IN REF A, "SOUTH YEMEN: CUTOFF IN ARAB AID," WHILE HIGHLY USEFUL AND APPRECIATED, GIVES IMPRESSION THAT CUTOFF IN ARAB AID TO PDRY HAS BEEN MORE DRASTIC THEN WE BELIEVE HAS BEEN THE CASE AS FAR AS KUWAIT IS CONCERNED. STATUS OF AID EITHER PROVIDED BY KUWAIT OR THROUGH KUWAIT-BASED INTER-ARAB AID INSTITUTIONS SINCE JULY 2 ARAB LEAGUE RESOLUTION "FREEZING" RELATIONS WITH PDRY IS AS FOLLOWS.

3. EMIGRANT REMITTANCES TO PDRY. ARTICLE STATES THAT "SAUDIS ARE MOVING IN CONCERT WITH KUWAIT AND THE UAE TO BLOCK TRANSFER TO WORKER REMITTANCES TO SOUTH YEMEN," WHICH "AMOUNTED TO ONE FOURTH OF SOUTH YEMEN'S GNP IN 1976." IF CUTOFF WAS IN FORCE HERE, FIRST ORGANIZATION TO KNOW WOULD BE KUWAIT'S CENTRAL BANK. QUERIED BY US ON SUBJECT JULY 26, CENTRAL BANK'S KNOWLEDGEABLE DEPUTY GOVERNOR EXPRESSED SURPRISE, SAYING THAT HE KNEW OF NO STOPPAGE OF ANY KIND IN BANK RELATIOS WITH ADEN. AS FAR AS HE WAS CONCERNED, TRANSFERS, TELEXES, ETC. WITH ADEN WERE ON A "BUSINESS AS USUAL BASIS."

4. ARAB FUND AID TO SOUTH YEMEN. ARTICLE TERMS KUWAIT-BASED ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT AS "LARGE CONTRIBUTOR" OF ASSISTANCE TO PDRY. SINCE ITS ESTABLISHMENT, ARAB FUND HAS APPROVED LOANS TOTALLING APPROXIMATELY $26 MILLION (7.1 MILLION KUWAIT DINARS --KD) TO FINANCE TWO PROJECTS IN SOUTH YEMEN -- $14.3 MILLION (OR 3.95 MILLION KD) FOR ADEN PORT REHABILITATION AND $11.7 MILLION (OR 3.2 MILLION KD) FOR FISH PROCESSING FACILITIES IN MUKALLA. EARLIER THIS YEAR FUND WAS CONSIDERING FINANCING TWO ADDITIONAL PROJECTS, APPROXIMATELY $37 MILLION (10 MILLION KD) FOR ELECTRICITY GENERATION IN THE WADI HADRAMAWT AND $6.6 MILLION (1.8 MILLION KD) FOR AGRICULTURAL DEVELOPMENT IN WADI TURBAN. SENIOR ARAB FUND OFFICIAL TOLD ECON CHIEF JULY 26 THAT DESPITE JULY 2 ARAB LEAGUE DECISION, PAYMENTS FOR THE TWO ALREADY APPROVED PROJECTS CONTINUE; IN FACT, SOME PAYMENTS ON ONE WERE MADE ONLY A FEW DAYS AGO. HE COMMENTED THAT, GIVEN THE FACT THAT

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TO RUEHC/SECSTATE WASHDC 1524
INFO RUQMBI/AMEMBASSY ABU DHABI 4045
RUEHAM/AMEMBASSY AMMAN 2665
RUEHEG/AMEMBASSY CAIRO 1990
ZEN/USINT BAGHDAD
RUQMOD/AMEMBASSY DOHA 1957
RUQMRA/AMEMBASSY JIDDA 5653
RUQMKM/AMEMBASSY KHARTOUM 538
RUDTC/AMEMBASSY LONDON 3104
RUQMAM/AMEMBASSY MANAMA 3418
RUQMMT/AMEMBASSY MUSCAT 1526
RUQMIA/USLO RIYADH 192
RUQMNS/AMEMBASSY SANA 1027
RUQMER/AMEMBASSY TEHRAN 4406
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C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 4328

ALL ARAB COUNTRIES ARE MEMBERS OF THE ARAB FUND, IT WOULD BE DIFFICULT TO OBTAIN THEIR AGREEMENT TO STOP PAYMENTS FOR PROJECTS ALREADY APPROVED. CONSIDERATION OF THE TWO ADDITIONAL PROJECTS IS SUSPENDED, NOT BECAUSE OF ANY SPECIFIC POLICY AGAINST SOUTH YEMEN, BUT BECAUSE ALL NEW COMMITMENTS BY THE ARAB FUND ARE IN SUSPENSE AND FEW ARE LIKELY TO BE APPROVED BEFORE CONSIDERATION OF AN INCREASE OF THE FUND'S CAPITAL AT THE NEXT ANNUAL MEETING IN APRIL, 1979.

5. KUWAITI ASSISTANCE. DIRECT GOVERNMENT OF KUWAIT ASSISTANCE TO SOUTH YEMEN IS CHANNELED THROUGH TWO ORGANIZATIONS, THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (FOR MAJOR PROJECTS), AND THE GENERAL AUTHORITY FOR THE SOUTH AND THE ARABIAN GULF (FOR "HUMANITARIAN ASSISTANCE," DEFINED AS ASSISTANCE IN THE CONSTRUCTION AND OPERATION OF SCHOOLS AND HOSPITALS.)

(A) KUWAIT FUND. SITUATION REGARDING KUWAIT FUND ASSISTANCE IN MURKY. SINCE 1962 KUWAIT FUND HAS APPROVED LOANS TO SOUTH YEMEN TOTALLING APPROXIMATELY $43 MILLION (11.73 MILLION KD). MOST RECENT WAS APPROXIMATELY $10 MILLION (2.7 MILLION KD) FOR MUKALLA FISHERIES PROJECT, SIGNED NOVEMBER 22, 1976 IN CONJUNCTION WITH THE ARAB FUND. THERE IS ONLY ONE KUWAIT FUND PROJECT FOR SOUTH YEMEN PRESENTLY UNDER CONSIDERATION, APPROXIMATELY $9 MILLION (2.5 MILLION KD) FOR PARTIAL FINANCING FOR AN AIRPORT AT RIYAN. LONG TIME FUND OFFICIAL (HIMSELF A NORTH YEMENI) DEALING WITH YEMEN MATTERS TOLD US THAT FUND'S

DEALINGS WITH BOTH YEMENS TOOK A GREAT DEAL OF TIME AND THAT PROCESS LEADING TO FINAL NEW PROJECT APPROVAL WAS VERY SLOW. THIS BEING THE CASE, THERE WAS NOT EVEN A NEED FOR ANY FORMAL "FREEZE" ON CONSIDERATION OF NEW PROJECTS NOW, AND HE KNEW OF NONE. AS FOR EXISTING PROJECTS, HE FELT THAT IT WOULD BE DIFFICULT TO STOP DISBURSEMENT OF FUNDS ALREADY LONG COMMITTED UNDER SIGNED LOAN AGREEMENTS.

(B) GENERAL AUTHORITY FOR THE SOUTH AND ARABIAN GULF. THEIS KUWAITI ORGANIZATION WAS SET UP IN 1963 TO CHANNEL ASSISTANCE TO BAHRAIN, THE THEN SEPARATE EMIRATES OF WHAT IS NOW THE UNITED ARAB EMIRATES, OMAN AND THE TWO YEMENS. THE UAE WAS DROPPED FROM THE LIST UPON ITS INDEPENDENCE AND AID TO SOUTHERN SUDAN WAS ADDED IN 1973. OVER PAST YET YEARS. THE AUTHORITY HAS BUDGETED ANNUALLY ROUGHLY $9 MILLION (2.4 MILLION KD) FOR ASSISTANCE TO SOUTH YEMEN. OF THIS, ABOUT $7.5 MILLION (2 MILLION KD) PER YEAR WENT FOR BUILDING OF SCHOOLS AND HOSPITALS AND $1.5 MILLION (400,000 KD) FOR THE PAYMENT OF SALARIES OF 100 TEACHERS, 10 DOCOTORS AND MISCELLANEOUS TECHNICIANS, ENGINEERS AND ADMINISTRATORS IN SOUTHERN YEMEN. (THE AUTHORITY MAINTAINS A SMALL OFFICE IN ADEN.) BECASE OF THE JULY 2 ARAB LEAGUE DECISION, THE AUTHORITY'S DIRECTOR TOLD US, THE USUAL ROUGHLY $7.5 MILLION FOR CONSTRUCTIO N HAS BEEN DROPPED FROM THE BUDGET FOR FISCAL 1979 (JULY 1, 1978 JUNE 30, 1979). HOWEVER, THE $1.5 MILLION FOR TEACHERS, DOCTORS, AND ADMINISTRATIVE OVERHEAD WILL CONTINUE, AS THIS COMES UNDER THE EXCEPTION FOR "HUMANITARIAN" ASSISTANCE DECIDED UPON BY THE GOVERNMENT OF KUWAIT.

6. PRESS REPORTS THAT PDRY FINANCE MINISTER, FADIL MUHSIN ABDULLAH, CALLED ON KUWAIT'S AMIR JULY 30 AND LEFT KUWAIT FOR LIBYA JULY 31. WE ASSUME THAT HE WAS ASKING FOR ASSISTANCE.

7. COMMENT: AS DEPARTMENT IS AWARE, GOVERNMENT OF KUWAIT HAS FOR MANY YEARS ARGUED THAT THE CARROT WOULD BE MORE EFFECTIVE THAN THE STICK IN WEANING PDRY BACK TO TRUE ARABISM AND MODERATION. AS A RESULT OF THE JULY 2 ARAB LEAGUE DECISION AGAINST PDRY, IT HAS MOVED AWAY FROM THE CARROT, BUT ONLY GOTTEN AS FAR AS THE TWIG. WE DOUBT THAT GOK WOULD EVER GO SO FAR AS BLOCKING BANK TRANSFERS TO ADEN, SINCE A CARDINAL POLICY FOR THIS MERCHANT CITY-STATE HAS ALWAYS BEEN FREE MOVEMENT OF CAPITAL INTO AND OUT OF THE COUNTRY. MAESTRONE
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#4328

TELEGRAM

1978 SEP 19 04

INDICATE COLLECT CHARGE TO

Dip Rm Kuwait

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	FROM	CLASSIFICATION
	AMEMBASSY TEHRAN	CONFIDENTIAL

E.O. 11652:
TAGS:
SUBJECT:
ACTION:

ACTION: SECSTATE WASHDC

INFO: AMEMBASSY AMMAN
AMEMBASSY ANKARA
AMEMBASSY ISLAMABAD
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS

CONFIDENTIAL TEHRAN 09000

POL-3
AMB
DCM
P/M
OR
CRU-2

LIMDIS

E.O. 11652: GDS

TAGS: PEPR, IR, KU

SUBJECT: IRAN-KUWAIT RELATIONS

1. THE DEAN OF THE LOCAL DIPLOMATIC CORPS IS A SHEIK NASR AL-JABER, A BRIGHT YOUNG KUWAITI PRINCELING, THE NEPHEW OF BOTH THE EMIR AND THE PRIME MINISTER OF KUWAIT LIKE ALL GOOD KUWAITIS HE CELEBRATED THE END OF RAMAZAN BY LEAVING TEHRAN AND HEADING FOR THREE WEEKS IN PARIS.

2. I WAS THEREFORE SOMEWHAT STARTLED TO RECEIVE A TELEPHONE CALL FROM HIM THE EVENING OF SEPT 18, SAYING HE WAS IN TOWN "INCOGNITO" AND THAT HE WANTED TO SEE ME,

DRAFTED BY:	DRAFTING DATE	TEL. EXT.	CONTENTS AND CLASSIFICATION APPROVED BY:
AMB:WHSullivan:mem	9/19/78		AMB

CLEARANCES:

CONFIDENTIAL
CLASSIFICATION

OPTIONAL FORM 162(41)
(Formerly FS-413(41))
January 1975
Dept. of State

TELEGRAM

1978 SEP 19 0[illegible]

INDICATE ☐ COLLECT ☐ CHARGE TO

Diplomatic Kuwait

09000

	FROM	CLASSIFICATION
	AMEMBASSY TEHRAN	CONFIDENTIAL

E.O. 11652:
TAGS:
SUBJECT:
ACTION:

ACTION: SECSTATE WASHDC

INFO: AMEMBASSY AMMAN
AMEMBASSY ANKARA
AMEMBASSY ISLAMABAD
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS

CONFIDENTIAL TEHRAN 09000

POL-3
AMB
DCM
P/M
OR
CRU-2

LIMDIS

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AMB:WHSullivan:mam	9/19/78		AMB

CLEARANCES:

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CLASSIFICATION

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OPTIONAL FORM 152(-1)
(Formerly FS-413(H))
January 1975
Dept. of State

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FOR UNDER SECRETARY'S PARTY (EDWARD MORSE)

E.O. 11652: GDS

TAGS: EFIN, KU, US

SUBJECT: COOPER VISIT TO KUWAIT; U.S. TAX TREATMENT OF KUWAIT DIRECT INVESTMENT

REF: STATE 266288

1. KUWAITI OFFICIALS MAY RAISE WITH UNDER SECRETARY COOPER ISSUE OF PROPOSED IRS REGULATIONS CONCERNING TAXATION OF INCOME OF FOREIGN GOVERNMENTS FROM INVESTMENT IN UNITED STATES. FOLLOWING IS BACKGROUND AND TALKING POINTS, WHICH AMEMBASSY KUWAIT MAY WISH TO SUPPLEMENT.

2. IRS HAS PROPOSED NEW REGULATIONS UNDER SECTION892 OF INTERNAL REVENUE CODE. UNDER SECRETARY'S PARTY (MORS") HAS COPY OF PROPOSED REGULATIONS AND SECTION 892. IN SUMMARY, SECTION 892 EXEMPTS FROM TAXATION INCOME OF "FOREIGN GOVERNMENTS" FROM STOCKS, BONDS, BANK DEPOSITS "OR FROM ANY OTHER SOURCE WITHIN THE UNITED STATES." PROPOSED IRS REGULATION INTERPRETS THIS EXEMPTION TO APPLY ONLY TO "PASSIVE" INCOME (INTEREST OR DIVI"-'D INCOME) OR INCOME FROM CERTAIN GOVERNMENTALLY-ORIENTED ACTIVITIES (SUCH AS TOUR OF A NATIONAL BALLET COMPANY). INCOME FROM ENGAGING IN A TRADE OR BUSINESS IN THE U.S., E.G. OWNERSHIP OF A HOTEL, OFFICE BUILDING, OR REAL ESTATE LEASES WOULD BE TAXABLE TO FOREIGN GOVERNMENT OR ANY OF ITS AGENCIES OR SUBDIVISIONS.

3. OVER THE PAST 13 YEARS KUWAITI GOVERNMENT HAS INVESTED IN CONSIDERABLE REAL ESTATE INTERESTS IN THE U.S., ACTING IN PART THROUGH CHASE MANHATTAN BANK AS AGENT OR BROKER. APPARENTLY ASSUMING SECTION 892 EXEMPTION APPLIED TO THESE INVESTMENTS, KUWAITIS MAY NOT HAVE FILED INCOME TAX RETURNS. KUWAITIS THUS FACE POTENTIAL TAX LIABILITY GOING BACK THIRTEEN YEARS, IF REGULATION IS FINALLY PRO-

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MULGATED AS PROPOSED. WE DO NOT KNOW AMOUNT OF INVESTMENT OR TAX LIABILITY IN QUESTION.

4. AS EVIDENT IN REFTEL, AND AS EMBASSY KUWAIT MAY ELABORATE, KUWAITIS ARE CONCERNED GENERALLY BY THE REDUCTION IN RETURN ON INVESTMENT AND PARTICULARLY BY POTENTIAL APPLICATION OF THE PROPOSED REGULATIONS TO INCOME FROM PAST YEARS. CHASE AND ITS LAWYERS HAVE ARGUED TO DEPUTY SECRETARY CARSWELL AND TO IRS, AND PRESUMABLY TOLD KUWAITIS, THAT SECTION ",,, ON ITS FACE, COULD REASONABLY BE INTERPRETED TO EXEMPT KUWAITI GOVERNMENT FROM TAX ON THE INCOME IN QUESTION. A, SUGGESTED REFTEL, KUWAITIS MAY BELIEVE USG HAS SOME ANTI-KUWAIT POLITICAL MOTIVATION IN PROPOSING REGULATION AT THIS TIME (-HIS IS NOT RPT NOT THE CASE).

5. IF KUWAITIS RAISE THIS ISSUE, YOU MAY WISH TO DRAW ON ABOVE BACKGROUND AND THE FOLLOWING POINTS. MOTIVATION FOR PROPOSAL WAS IN FACT DESIRE TO CLARIFY APPLICATION OF 892 WITH RESPECT TO ALL FOREIGN GOVERNMENTS. (F.Y.I. INTENT GENERALLY WAS TO DISTINGUISH BETWEEN "COMMERCIAL" AND "GOVERNMENTAL" TYPES OF INVESTMENT) TREASURY HAS PROVIDED OPPORTUNITY FOR WRITTEN COMMENTS (INCLUDING THOSE OF CHASE MANHATTAN BANK). WE UNDERSTAND TREASURY INTENDS TO HOLD PUBLIC HEARINGS IN JANUARY ON THE PROPOSED REGULATION. REGULATION WOULD NOT BE PROMULGATED IN FINAL FORM BEFORE THEN. FURTHERMORE, TREASURY IS AWARE OF KUWAIT'S SPECIAL CONCERNS, INCLUDING PROBLEM APPLICATION TO LAST YEARS INCOME. FOR THIS REASON WE UNDERSTAND SECRETARY BLUMENTHAL INTENDS TO BRING TREASURY'S DEPUTY ASSISTANT SECRETARY FOR TAX POLICY (EMIL SUNDLE) WITH HIM ON NOVEMBER VISIT TO KUWAIT.

6. DAVID ROCKEFELLER CALLED ON ASSISTANT SECRETARY KATZ CONCERNING THIS ISSUE. ROCKEFELLER POINTED OUT POTENTIAL HARM TO BOP AND TO U.S.-OPEC RELATIONS IF THIS REGULATION IMPLEMENTED. VANCE
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FOLLOWING REPEAT KUWAIT 6702 ACTION SECSTATE INFO ABU DHABI [illegible]ARA BAGHDAD BRUSSELS CARACAS DHAHRAN DOHA JIDDA LAGOS LONDON MANAMA MUSCAT PARIS TOKYO NOV 6:

QUOTE C O N F I D E N T I A L KUWAIT 6002

E.O. 11652: GDS
TAGS: ENRG, IR, KU, OPEC
SUBJ: KUWAIT CONTRIBUTION TO MAKE-UP OF IRANIAN SHORTFALL DOUBTFUL FOR THE PRESENT

REF: (A) LONDON 18024 (NOTAL), (B) KUWAIT 5937 (NOTAL)

1. SUMMARY. TOTAL KUWAIT PRODUCTION (INCLUDING ITS SHARE OF PRODUCTION FROM ZONE PARTITIONED WITH SAUDI ARABIA) IS NOW RUNNING AT 2.1 MILLION B/D. EVEN IF GOK WANTED TO, THIS COULD NOT BE INCREASED TO MUCH MORE THAN 2.9 MILLION B/D BECAUSE OF NECESSARY WORK-OVERS WHICH WILL NOT BEGIN UNTIL 1979 AND WILL TAKE PERIOD OF YEARS. GULF OIL CO. REPS BELIEVE IRAQ, KUWAIT, SAUDI ARABIA AND UAE HAVE TACIT UNDERSTANDING NOT TO CONSIDER INCREASE IN PRODUCTION IN RESPONSE TO IRANIAN SHORTFALL FOR AT LEAST WEEK OR TWO, WHEN SITUATION SHOULD BECOME CLEARER. END SUMMARY.

2. AFTER SENDING REF B, WE CHECKED WITH OFFICIALS OF THE OIL MINISTRY AND THE KUWAIT OIL COMPANY (KOC), KUWAIT'S LARGEST OIL PRODUCER, AS WELL AS GULF OIL COMPANY REPS, INCLUDING VISITING SENIOR V.P. FOR MARKETING. RESULTS OF INQUIRIES AND DISCUSSIONS REGARDING POSSIBILITY OF KUWAIT INCREASING ITS PRODUCTION TO COMPENSATE PARTIALLY FOR IRANIAN SHORTFALL FOLLOW.

3. CAPACITY. KOC DEP. GEN. MANAGER IN CHARGE OF OPERATIONS (PROTECT) TOLD US NOV. 2 THAT ALTHOUGH KOC HAD HAD PLANS IN EARLY 70'S TO ENSURE 3.4 MILLION B/D PRODUCTIVE CAPACITY, AS THE RESULT OF NATIONALIZATION AND OF GOK CONSERVATION POLICY, FUNDS WERE NOT ALLOCATED FOR NECESSARY WELL WORK-OVER AND MAINTENANCE. SITUATION IS THAT AT PRESENT KOC CANNOT MAINTAIN PRODUCTION OF OVER 2.6 MILLION B/D. KOC EXPECTS TO BEGIN NECESSARY WORK-OVER PROGRAM IN 1979, BUT UNLESS FUNDING IS

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DRASTICALLY INCREASED, PROGRAM WILL ONLY COVER WORK-OVER OF SOME 20 OUT OF KOC'S 700 PLUS WELLS PER YEAR. MANAGER SEES NO PROSPECT FOR INCREASE IN THIS CAPACITY UNLESS PRESENT CEILING OF 2 MILLION B/D AVERAGE ANNUAL PRODUCTION FOR KOC IS LIFTED. AS FOR REMAINING KUWAITI PRODUCTION CAPACITY IN SAUDI/KUWAITI PARTITIONED ZONE, THERE ARE NO PLANS TO INCREASE ARABIAN OIL COMPANY'S (AOC) 450,000 B/D CAPACITY (I.E. KUWAITI SHARE 225,000 B/D), OR THAT OF FORMER AMINOIL OPERATION (KUWAITI SHARE 0.90,000 B/D). THIS MEANS EFFECTIVE TOTAL KUWAIT PRODUCTIVE CAPACITY IS A LITTLE OVER 2.9 MILLION B/D.

4. ACTUAL PRODUCTION. IN OCTOBER, ACCORDING TO LATEST AVAILABLE INTERNAL OIL MINISTRY FIGURES, TOTAL KUWAITI PRODUCTION WAS RUNNING AT 2.1 MILLION B/D - 1.83 MILLION B/D FOR KOC AND 280,000 B/D FOR KUWAIT'S SHARE OF PARTITIONED ZONE PRODUCTION. 2.1 MILLION FIGURE IS 5 PERCENT INCREASE OVER OCTOBER, 1977. FOR FIRST TEN MONTHS OF 1978 TOTAL PRODUCTION, INCLUDING KUWAIT SHARE OF PARTITIONED ZONE PRODUCTION, AVERAGED 2 MILLION B/D, UP 6.77 PERCENT OVER FIRST TEN MONTHS OF 1977. DETAILED PRODUCTION FIGURES ARE AS FOLLOWS (IN BARRELS PER DAY).

	OCTOBER	AVERAGE JAN - OCT
KUWAIT OIL COMPANY (KOC)	1,830,166	1,709,124
FORMER AMINOIL OPERATION	83,525	80,799
ARABIAN OIL CO. (AOC)--KUWAIT SHARE	200,120	141,380
TOTAL	2,113,811	2,019,303

5. GULF OIL COMPANY OFFICIALS TELL US THEY AND THE TWO OTHER MAJOR OFF-TAKERS (SHELL AND BP) HAVE ALL BEEN TO SEE KUWAIT'S OIL MINISTER REGARDING INCREASING OFF-TAKE BUT TO DATE THE MINISTER HAS SHOWN NO INTEREST. GULF, WHICH USUALLY DEMOANS MARKET CONDITIONS, SAYING IT CANNOT MEET ITS MINIMUM CONTRACTUAL OFFTAKE OBLIGATIONS, IS BUYING THE MAXIMUM LEVEL OF OIL ALLOWED UNDER ITS CONTRACT FROM KUWAIT (525,000 B/D); WE UNDERSTAND SHELL AND BP ARE DOING LIKEWISE. GULF REPS BELIEVE IRAQ, KUWAIT, SAUDI ARABIA AND UAE HAVE TACIT UNDERSTANDING NOT TO CONSIDER INCREASE IN PRODUCTION IN RESPONSE TO IRANIAN SHORTFALL FOR AT LEAST WEEK OR TWO, WHEN SITUATION SHOULD BECOME CLEARER.

6. COMMENT. WE SERIOUSLY DOUBT THAT LITTLE KUWAIT WILL WISH TO OFFEND IRANIANS BY TAKING SHORT TERM ADVANTAGE OF IRAN'S HOPEFULLY TEMPORARY OIL MISFORTUNES. ON THE OTHER HAND, IF THE SITUATION PERSISTS, WE BELIEVE THAT KUWAIT WOULD RAISE PRODUCTION TO THE LIMIT OF A LITTLE OVER 2.9 MILLION B/D IN CONJUNCTION WITH EFFORTS BY SAUDI ARABIA, UAE AND OTHERS TO MEET REASONABLE GLOBAL DEMANDS.

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7. DEPARTMENT PLEASE PASS TEHRAN IF SO DESIRED. MAESTRONED UNQUOTE VANCE
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ACTION

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O P 1412557 NOV 78
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2308
INFO RUQMBI/AMEMBASSY ABU DHABI 4253
RUFRRS/AMEMBASSY ALGIERS 669
ZEN/USINT BAGHDAD POUCH
RUFRBS/AMEMBASSY BRUSSELS 617
RUEHEG/AMEMBASSY CAIRO 2132
RUFRRS/AMEMBASSY CARACAS 386
RUQMLH/AMCONSUL DHAHRAN 3826
RUFRQD/AMEMBASSY DOHA 2192
RUQMBT/AMEMBASSY JAKARATA 321
RUQMJA/AMEMBASSY JIDDA 5832
RUFRLG/AMEMBASSY LAGOS 338
RUFRLC/AMEMBASSY LIBREVILLE 195
RUQMLC/AMEMBASSY LONDON 3122
RUFRAM/AMEMBASSY MANAMA 3586
RUFRPS/AMEMBASSY PARIS 2922
RUFRQI/AMEMBASSY QUITO 193
RUQMTR/AMEMBASSY TEHRAN 4550
RUQMTI/AMEMBASSY TRIPOLI 1173
RUFRAU/AMEMBASSY VIENNA 364
RUEATRS/USTREAS WASHDC IMMEDIATE
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C O N F I D E N T I A L SECTION 1 OF 5 KUWAIT 6083

BRUSSELS PASS TO USMISSION EC

PARIS PASS TO USMISSION TO OECD

TREASURY FOR SECRETARY BLUMENTHAL'S OFFICE

E.O. 11652: GDS
TAGS: EFIN, ENRG, ECON, KU
SUBJECT: VISIT OF UNDER SECRETARY COOPER TO KUWAIT

REF: (A) STATE 274100 (NOTAL), (B) KUWAIT 5738 (NOTAL), (C) ABU DHABI 2886 (NOTAL), (D) KUWAIT 5907 (NOTAL), (E) STATE 286393 (NOTAL)

1. SUMMARY: DURING OCT 31-NOV 1 VISIT TO KUWAIT, UNDER SECRETARY COOPER MET WITH MINISTERS OF OIL AND FINANCE, THE AMIR'S FINANCE ADVISOR, AND DIRECTOR GENERAL OF THE KUWAIT FUND. KUWAITI OFFICIALS APPRECIATED UNDER SECRETARY'S PRESENTATION ON WORLD ECONOMY AND OUR PROGNOSIS FOR THE DOLLAR

BUT FELT THAT, EVEN IF LONG-TERM, FUNDAMENTAL TRENDS BODE WELL FOR DOLLAR, US HAD NOT YET ACTED UP TO SHORT-TERM PROBLEM. IN RESPONSE TO APPEAL FOR MODERATION AT ABU DHABI OPEC CONFERENCE, OIL MINISTER SAID HE WOULD NOT ACCEPT PRICE INCRTASE OF LESS THAN TEN PERCENT, ALTHOUGH THIS MIGHT BE ACHIEVED IN STAGES. KUWAIT OFFICIALS EXPRESSED DEEP CONCERN OVER PROPOSED CHANGES UNDER SECTION 892 OF IRS CODE WHICH WOULD MAKE KUWAIT GOVERNMENT INVESTMENT IN US REAL ESTATE SUBJECT TO TAXATION. EXPRESSING CONCERN OVER POSSIBLE PROGRESSIVE RESTRAINTS ON FOREIGN INVESTMENT, BOTH OIL AND FINANCE MINISTERS DECRIED SUCH DISCOURAGEMENT OF INVESTMENT, SINCE INVESTMENT IS LINKED CLOSELY TO COUNTRY'S OIL PRODUCTION POLICY. IN RESPONSE TO UNDER SECRETARY COOPER'S PRESENTATION ON NORTH/SOUTH ISSUES, FINANCE MINISTER EXPRESSED SKEPTICISM ABOUT VALUE OF PROJECTS AND EFFORTS RELATED TO THESE ISSUES. DIRECTION AND LEVEL OF AID POLICIES WERE SUBJECT OF USEFUL DISCUSSION WITH KUWAIT FUND HEAD AL-HAMAD. SEPTEL DESCRIBES EXTENSIVE DISCUSSIONS OF SECTION 892 APPLICABILITY TO KUWAIT GOVERNMENT INVESTMENT IN US. END SUMMARY

2. IN A BUSY 24 HOURS IN KUWAIT, OCT 31-NOV 1, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS RICHARD N. COOPER PAID A ONE-HOUR OFFICE CALL ON OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH, HAD A TWO-HOUR MEETING WITH FINANCE MINISTER ATEEQI AND MET WITH AMIR'S FINANCIAL ADVISOR, KHALID ABU SA'UD AND THE DIRECTOR GENERAL OF THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT, ABDULLATIF AL-HAMAD, WHO GAVE A LUNCHEON IN HIS HONOR. AMBASSADOR ALSO HOSTED A DINNER ATTENDED BY ALI KHALIFA AND INFLUENTIAL KUWAITI INVESTMENT BANKERS AND BUSINESSMEN.

3. IN HIS CALLS ON ALI KHALIFA, ATEEQI AND ABU SA'UD, UNDER SECRETARY COOPER (1) REVIEWED THE STATE OF THE WORLD ECONOMY AND PROSPECTS FOR A STRENGTHENED DOLLAR, (2) (WITH ATEEQI) DISCUSSED NORTH/SOUTH ISSUES, AND (3) DISCUSSED THE ENERGY BALANCE AND OUR HOPE FOR EXTREME MODERATION AT THE FORTHCOMING OPEC MEETING. DISCUSSIONS OF OIL PRICES, UNDER SECRETARY'S PRESENTATIONS FOLLOWED CLOSELY THAT ALREADY REPORTED IN PARAS 4 AND 6 OF REF C. DISCUSSION ON THESE ISSUES DEVELOPED ALONG FOLLOWING LINES.

4. THE WORLD ECONOMY AND THE DOLLAR. KUWAITI REACTION TO UNDER SECRETARY COOPER'S PRESENTATION WAS APPRECIATIVE BUT SKEPTICAL OF THE IMMEDIATE PROBLEMS POSED BY THE WEAKNESS OF THE DOLLAR.

5. OIL MINISTER'S COMMENTS. ALI KHALIFA SAID HE WOULD NOT ARGUE WITH UNDER SECRETARY COOPER'S ANALYSIS OF THE DOLLAR'S LONG-TERM FUNDAMENTAL PROSPECTS. FOR KUWAIT, HOWEVER,

DOLLAR PROBLEM IS IMMEDIATE. KUWAIT'S INCOME IS IN DOLLARS, BUT IT MUST CONVERT THEM INTO INCREASINGLY EXPENSIVE MARKS, YEN AND OTHER CURRENCIES TO PURCHASE THE IMPORTS ON WHICH THE COUNTRY DEPENDS. EUROPEAN AND AMERICAN BANKERS WHO THE MINISTER SEES EVERY DAY ALL FEEL THAT THE US ANTI-INFLATION MEASURES ARE "WITHOUT TEETH." THEIR PERCEPTION IF THAT IN THE SHORT TERM THE USG DOESN'T CARE. ANOTHER PROBLEM IS THAT US COMPANIES ARE NOT THAT INTERESTED IN PROMOTING EXPORTS. B. UNDER SECRETARY COOPER REPLIED THAT HE COULD NOT
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[illegible]ERS/AMEMBASSY ALGIERS 672
[illegible]/USINT BAGHDAD POUCH
[illegible]ERS/AMEMBASSY BRUSSELS 618
[illegible]EHEG/AMEMBASSY CAIRO 2133
[illegible]ECAS/AMEMBASSY CARACAS 387
[illegible]MDH/AMCONSUL DHAHRAN 3827
[illegible]QMOD/AMEMBASSY DOHA 2193
[illegible]OST/AMEMBASSY JAKARTA 322
[illegible]QMRA/AMEMBASSY JIDDA 5833
[illegible]NTALS/AMEMBASSY LAGOS 339
[illegible]HLC/AMEMBASSY LIBREVILLE 196
[illegible]DTC/AMEMBASSY LONDON 3193
[illegible]MAM/AMEMBASSY MANAMA 3589
[illegible]ENPS/AMEMBASSY PARIS 2303
[illegible]SQI/AMEMBASSY QUITO 194
[illegible]QMHR/AMEMBASSY TEHRAN 4551
[illegible]QMII/AMEMBASSY TRIPOLI 1174
[illegible]HAD/AMEMBASSY VIENNA 385
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[illegible]SAGREE WITH THE MINISTER'S CHARACTERIZATION OF THE PER-
[illegible]CEPTIONS OF MANY EUROPEAN AND AMERICAN BANKERS. HOWEVER, AS
[illegible] MINISTER KNEW, IN THE PAST FEW MONTHS THE US GOVERNMENT
[illegible] HAS TAKEN A NUMBER OF SHORT-TERM MEASURES, INCLUDING INCREASED
[illegible]D SAWES AND INTEREST RATES. IN FACT, THE US BALANCE OF
[illegible]RADE HAD IMPROVED IN THE LAST FEW MONTHS. MEETING THE SAME
[illegible]UESTIONS FROM A GROUP OF US AND IRANIAN BANKERS IN
[illegible]RAN, UNDER SECRETARY SAID HE ASKED THEM TO IMAGINE A DRASTIC
[illegible]OLUTION TO THE DOLLAR PROBLEM THAT IS NOT MORE COSTLY THEN
[illegible]E PROBLEM. US COULD, FOR EXAMPLE, PUT A TEMPORARY SURCHARGE
[illegible]F IMPORTS OR IMPOSE OTHER IMPORT CONTROLS, BUT THE WEST
[illegible]ERMANS, JAPANESE AND OTHERS WOULD NOT WANT THAT. WE COULD
[illegible]AVE A RECESSION IN THE UNITED STATES, BUT THAT CERTAINLY
[illegible]OULD NOT BE GOOD FOR THE WORLD, ESPECIALLY THE LDC'S.
[illegible]RATHER, OUR WHOLE PROGRAM HAD BEEN NOT TO RESTRICT THE
[illegible]ORLD ECONOMY BUT TO EXPAND IT, TO ENCOURAGE THE EUROPEAN
[illegible]ONOMIES TO BE LESS SLUGGISH, HELPING THEMSELVESSAND THE
[illegible]OLLAR.

S. TO FIRMS NOT ACTIVE ENOUGH. COOPER SAID HE WOULD BE ESPECIALLY INTERESTED IN OIL MINISTER'S PERCEPTIONS OF US BUSINESSMEN AND THE DEGREE TO WHICH THEY HAVE PROMOTED EXPORTS IN LIGHT OF IMPROVED COMPETITIVE POSITION DUE TO CHEAPER DOLLAR. IF THEY WERE NOT TAKING ADVANTAGE OF THIS OPPORTUNITY, THIS WOULD BE A MATTER OF CONSIDERABLE CONCERN TO US. PRESIDENT CARTER, HE NOTED, HAD ANNOUNCED A NEW EXPORT POLICY TO ENCOURAGE EXPORTS, ESPECIALLY BY MEDIUM-SIZE US FIRMS. MINISTER REPLIED THAT HE HAD SEEN NO INDICATIONOF INCREASED ACTIVITY BY US FIRMS. IN THE PAST FEW MONTHS ONLY ONE US FIRM THAT HE KNEW OF HAD WON A MAJOR CONTRACT IN KUWAIT AND THIS FIRM HAD BEEN IN A JOINT VENTURE WITH A JAPANESE FIRM. AMBASSADOR NOTED THAT THIS WAS RILEY-MITSUI JOINT VENTURE, LOW BIDDER FOR THE BOILER PART OF THE ONE BILLION DOLLAR WEST DOHA POWER PROJECT. HE ADDED THAT, DESPITE OUR CONSIDERABLE EFFORTS FOR OVER A YEAR, ONLY ONE US FIRM, GE, HAD BID FOR THE TURBINE PART OF THE PROJECT, AND ITS BID WAS DOUBLE THAT OF THE JAPANESE LOW BIDDER.

7. ATEEQI ON THE DOLLAR. IN RESPONSE TO UNDER SECRETARY COOPER'S PRESENTATION, FINANCE MINISTER ATEEQI SAID THAT HE HOPED THAT PRESIDENT CARTER'S EFFORTS TO CONTROL INFLATION, EXPAND EXPORTS, AND REDUCE OIL IMPORTS ALL SUCCEEDED, BUT HE DOUBTED THIS WOULD HAPPEN IN THE NEAR TERM. FOR EXAMPLE, THE UPCOMING WAGE NEGOTIATIONS IN THE US FOR THREE-YEAR LABOR CONTRACTS WERE LIKELY TO ADD TO INFLATION, RATHER THAN REDUCE IT. ATEEQI ARGUED THAT, BESIDES HURTING THE OIL PRODUCERS, THE DEPRECIATING DOLLAR WOULD NOT HELP USSEXPORTS SINCE IT SIMPLY LOWERS THE COST OF OIL FOR GERMNY, OTHER EUROPEAN COUNTRIES AND JAPAN, MAKING THEM MORE COMPETITIVE WITH THE UNITED STATES, NOT LESS SO. ATEEQI WONDERED OUT LOUD WHETHER WHAT IS HAPPENING TO THE DOLLAR IS NOT THE RESULT OF SOME "POLITICAL INTENTION." WHATEVER THE CASE, ATEEQI SAID, "WE US WOULD PAY THE PRICE" SINCE THE US WAS AT THE HEART OF THE WORLD ECONOMY AND THE DECLINE OF THE DOLLAR WOULD HURT THE WORLD ECONOMY. WHAT THE US AND EUROPE WERE DOING WAS TO CUT THE BODY TO FIT THE GARMENT, THE BODY BEING THE PRO-DUCERS OF RAW MATERIALS SUCH AS OIL AND OTHER COMMODITIES. THE OIL PRODUCERS SELL THEIR IRREPLACEABLE ASSETS AND ALL THEY GET IN RETURN IS SOMETHING WHICH DEPRECIATES RAPIDLY. FOR YEARS, ATEEQI SAID, IN DISCUSSION WITH FORMER TREASURY SECRETARY SIMON AND ASST SEC PARSKY, AND NOW SECRETARY BLUMENTHAL LAST YEAR, KUWAIT HAD BEEN TRYING TO GET FRIENDSD IN HIGH ECHELONS TO REALIZE THAT THE OIL PRODUCERS AND THE CONSUMERS HAVE COMMON INTERESTS, BUT NOW THERE IS NO WORLD MONETARY SYSTEM TO DEPEND ON. NOW THE G77 IS PUSHING FOR KUWAIT TO GET INVOLVED IN FINANCIAL MATTERS BECAUSE THERE IS NO MORE FINCIAL STABILITY. NEED FORCES MANY TO PRODUCE, MINISTER COMMENTED, BUT MANY OF THE OIL COUNTRIES HAVE NO

SOCIAL NEED. THEY PRODUCE FOR MORAL REASONS--TO ACCOMMODATE THE WORLD. YET FOR THEIR EFFORTS THEY END UP PILLORIED BY THE PRESS AND PROPAGANDA--AND GET PAID IN A DEPRECIATING CURRENCY

8. REFERRING TO ATEEQU'S ANALOGY, UNDER SECRETARY COOPER
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WILLIAMS

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DE RUQMKW #6056/3 3151545
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FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7310
INFO RUQMBI/AMEMBASSY ABU DHABI 4255
RUEHAS/AMEMBASSY ALGIERS 871
ZEN/USINT BAGHDAD POUCH
RUEHBR/AMEMBASSY BRUSSELS 619
RUEHEG/AMEMBASSY CAIRO 2134
RUEHCA/AMEMBASSY CARACAS 388
RUEHDH/AMCONSUL DHAHRAN 3928
RUEHDD/AMEMBASSY DOHA 2194
RUEHJK/AMEMBASSY JAKARTA 325
RUEHJA/AMEMBASSY JIDDA 5834
RUEHLA/AMEMBASSY LAGOS 348
RUEHLC/AMEMBASSY LIBREVILLE 107
RUEHLC/AMEMBASSY LONDON 3194
RUEHAM/AMEMBASSY MANAMA 3590
RUEHFR/AMEMBASSY PARIS 2024
RUEHQI/AMEMBASSY QUITO 195
RUEHRH/AMEMBASSY RIYADH 4552
RUEHTI/AMEMBASSY TRIPOLI 1178
RUEHAU/AMEMBASSY VIENNA 366
RUEAFRS/USTREAS WASHDC IMMEDIATE
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SAID WE HAVE BEEN TRYING TO FIT THE GARMENT TO THE BODY AND NOT CUT THE BODY. WHEN JIMMY CARTER BECAME PRESIDENT, COOPER SAID, THE WORLD WAS IN A RECESSION, COMMODITY PRICES WERE DEPRESSED. WE FELT IT WAS THE RESPONSIBILITY OF THE UNITED STATES, JAPAN AND GERMANY TO DO SOMETHING, AND AT THE LONDON SUMMIT IN MAY 1977 WE GOT GENERAL AGREEMENT AT THE RHETORICAL LEVEL. ONLY THE US ACTED. IT EXPANDED ITS ECONOMY, FOR INTERNAL REASONS BUT ALSO BECAUSE IT WAS GOOD FOR THE WORLD, ESPECIALLY PRIMARY PRODUCT PRODUCING COUNTRIES. WE ALSO KNEW THERE WOULD BE PROBLEMS IF GERMANY AND JAPAN DID NOT EXPAND NOW, AFTER THE BONN SUMMIT, GERMANY AND JAPAN WILL EXPAND AND WE HOPE IN THIS REGARD THAT 1979 WILL BE BETTER THAN 1978. NO DOUBT THERE ARE PROBLEMS NOW, BUT THE WORLD WOULD BE WORSE OFF WITH MORE UNEMPLOYMENT AND MORE PROTECTIONISM IF WE HAD NOT DONE WHAT WE DID.

F. TURNING TO ATEEQI'S COMMENT ABOUT OIL PRODUCTION AND MORAL RESPONSIBILITY, UNDER SECRETARY COOPER NOTED THAT WE TOO, FEEL A RESPONSIBILITY, FOR EXAMPLE, WHEN WE EXPORT

[illegible]-IN. OFTEN TIMES THIS IS OVER THE OBJECTIONS OF OUR OWN [illegible]MERS, WHO WOULD LIKE US TO PRODUCE LESS, THEREBY FORCING [illegible] THE PRICE. WE HAVE SENT THOUSANDS AND THOUSANDS OF TONS OF GRAIN ON A CONCESSIONARY BASIS TO COUNTRIES SUCH AS INDIA AND EGYPT PRECISELY BECAUSE OF THIS SENSE OF RESPONSIBILITY. PRODUCING MORE THAN WE NEED, WE THUS FIND OURSELVES IN A SITUATION TO SOME DEGREE SIMILAR TO THAT OF THE MAJOR OIL EXPORTING NATIONS, ATEEQI REPLIED WITH A SMILE THAT HE WAS NOT ENTIRELY IN AGREEMENT WITH THE PARALLEL BETWEEN OIL AND GRAIN. BUT THAT SUCH DISCUSSION WOULD HAVE TO WAIT FOR ANOTHER OCCASION.

G. OBSERVATIONS BY FINANCIAL ADVISOR ABU SA'UD. KHALID ABU SA'UD, FOR MORE THAN 22 YEARS A KEY FIGURE DETERMINING THE DIRECTION AND COMPOSITION OF KUWAIT GOVERNMENT INVESTMENTS, TOLD UNDER SECRETARY COOPER THAT KUWAIT'S RULES IS FINALLY BEGINNING TO WORRY ABOUT THE DOLLAR AND CONFIRMED HE TAKES PERSONAL INTEREST IN THE PROBLEM. ABU SA'UD ESTIMATED THAT ON THE ROUGHLY 6 BILLION DOLLARS FROM OIL REVENUES SET ASIDE BY KUWAIT'S GOVERNMENT LAST YEAR FOR EXPENDITURES, KUWAIT LOST NEARLY 20 PERCENT BECAUSE OF THE DOLLAR'S DEPRECIATION. THIS WAS BECAUSE FROM HALF TO TWO-THIRDS OF THE GOVERNMENT BUDGET IS SPENT ON IMPORTS, THE MAJO[illegible] (80 PER-
CENT) OF WHICH ARE FROM COUNTRIES SUCH AS GERMANY AND JAPAN WHOSE CURRENCIES HAVE APPRECIATED DRAMATICALLY AGAINST THE DOLLAR. ABU SA'UD SAID KUWAIT STILL LOOKS TO THE UNITED STATES AS THE PLACE FOR ITS LONG-TERM INVESTMENT, BUT THE SHORT-TERM PROSPECT WAS VERY TROUBLING NOW THAT NOT ONLY INDIVIDUALS AND SPECULATORS WERE DUMPING THE DOLLAR, BUT ALSO MAJOR INSTITUTIONS. ECHOING COMMENTS OF THE OIL MINISTER, ABU SA'UD SAID THAT THE EUROPEAN FINANCIAL COMMUNITY HAS CONCLUDED THAT THE AMERICANS SIMPLY ARE NOT CONCERNED ABOUT THE FALL OF THE DOLLAR. HE HOPED SOMETHING COULD BE DONE TO CHANGE THIS VIEW AND SHORE UP THE DOLLAR. AS FOR KUWAIT'S OPTIONS REGARDING THE DOLLAR, ABU SA'UD SAID FRANKLY: "WE DON'T KNOW WHAT TO DO. WE DON'T WANT TO MOVE OUT OF THE DOLLAR AND TAKE A LOSS, AND IN ANY EVENT, WHERE WOULD WE GO (TO INVEST LARGE SUMS)?"

H. OIL PRICES AND ABUD DHABI OPEC MEETING. IN MEETING WITH OIL MINISTER, UNDER SECRETARY COOPER SAID WE HAVE A GREAT INTEREST IN OPEC'S UPCOMING MEETING IN ABU DHABI. HE HAVE ARGUED ALONG LINES REPORTED PARA 6 REF C THAT SITUATION OF PETROLEUM MARKET IN 1979, EFFECT OF ANY PRICE RISE ON WORLD INFLATION, AND STILL FRAGILE STATE OF WORLD ECONOMY ARGUED FOR EXTREME MODERATION IN APPROACHING DISCUSSION OF ANY OIL PRICE RISE AT ABU DHABI. ALI KHALIFA REPLIED: "WE HAVE BEEN MODERATE TO DEGREE THAT IS POLITICALLY UNREALISTIC ...IF YOU ARE TALKING ABOUT A FIVE PERCENT INCREASE FOR ALL

OF 1979, THIS IS NOT ACCEPTABLE." ANY OIL MINISTER WHO WOULD ACCEPT SUCH A LIMITED INCREASE IS EITHER "UNAWARE OF NAIVE. "NO ONE WILL ACCEPT WHAT THE IRAQIS HAVE PUBLICLY DEMANDED. HOWEVER, WE WILL NOT ACCEPT AN INCREASE BELOW TEN PERCENT. HOW IT IS DONE, AT ONCE OR IN STAGES, IS NOT OF CONCERN. WE DO NOT ASK COMPENSATION FOR LOSSES OVER THE PAST TWO YEARS. BT
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[illegible]HRS/AMEMBASSY ALGIERS 672
[illegible]N/USINT BAGHDAD POUCH
[illegible]HPS/AMEMBASSY BRUSSELS 6209
[illegible]HEG/AMEMBASSY CAIRO 2135
[illegible]ASRS/AMEMBASSY CARACAS 385
[illegible]UQMDH/AMCONSUL DHAHRAN 3825
[illegible]UQMCD/AMEMBASSY DOHA 1195
[illegible]OST/AMEMBASSY JAKARTA 324
[illegible]MRA/AMEMBASSY JIDDA 5835
[illegible]HALS/AMEMBASSY LAGOS 341
[illegible]HPLC/AMEMBASSY LIBREVILLE 168
[illegible]HTC/AMEMBASSY LONDON 3195
[illegible]UQMAM/AMEMBASSY MANAMA 3591
[illegible]HNPS/AMEMBASSY PARIS 2005
[illegible]HSQI/AMEMBASSY QUITO 195
[illegible]HMR/AMEMBASSY TEHRAN 4553
[illegible]HTI/AMEMBASSY TRIPOLI 1176
[illegible]HAU/AMEMBASSY VIENNA 357
[illegible]HTRS/USTREAS WASHDC IMMEDIATE

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[illegible] UNDERSTAND OUR RESPONSIBILITIES, BUT WE ALSO HAVE THEM FOR [illegible] OWN PEOPLE. IT WOULD BE POLITICALLY UNWISE FOR US TO [illegible]EPT TOO SMALL AN INCREASE. IT WOULD NOT EVEN BE GOOD FOR [illegible] UNITED STATES BECAUSE OF THE NEGATIVE INTERNAL POLITICAL [illegible]ECTS FOR THE OIL PRODUCERS." UNDER SECRETARY COOPER [illegible]CLUDED WHAT HAD BEEN A SPIRITED BUT FRIENDLY CONVERSATION [illegible] SAYING THAT HE UNDERSTOOD THE POLITICAL AND OTHER CONSIDER- [illegible]IONS INVOLVED, BUT WOULD APPRECIATE THE MINISTER'S [illegible]ICUS EXERCISE OF RESTRAINT IN OIL PRICE DECISION.

[illegible]. MINISTERS LINK US TAX CHANGES TO OIL PRODUCTION.
[illegible] PROPOSED REVISION BY IRS OF US TAX REGULATIONS TO COVER [illegible]F OF THE INVESTMENTS OF FOREIGN GOVERNMENTS IN THE US [illegible]EC. 892), REPORTED REF B, PROVED TO BE A MAJOR TOPIC OF [illegible]CUSSION DURING THE VISIT. BOTH THE OIL AND FINANCE [illegible]ISTERS DISCUSSED THE SUBJECT AT LENGTH, WARNING THAT [illegible]VISION OF REGULATIONS UNDER SEC 892, BY DISCOURAGING [illegible]AITI INVESTMENT IN THE US, COULD ALSO DISCOURAGE KUWAITI [illegible] PRODUCTION. OIL MINISTER REMARKED THAT HE HOPED WE UNDER

SECOD THE KIND OF ATMOSPHERE WE WERE CREATING BY OUR NEW TAX TREATMENT OF KUWAITI INVESTMENT IN THE US. BECAUSE OF RECENT SHARP DROP IN IRANIAN OIL PRODUCTION, A NUMBER OF LARGE OIL CUSTOMERS HAD COME TO KIM OFFERING TO PURCHASE CONSIDERABLE AMOUNTS OF CRUDE ON LONG-TERM CONTRACT (REF D). ALI KHALIFA SAID THAT PROPOSED US REVISION OF TAX TREATMENT OF FOREIGN GOVERNMENT INVESTMENT (SEC. 892) HAD CREATED A STRONG PERCEPTION IN THE COUNCIL OF MINISTERS THAT THERE WOULD BE NO INCENTIVE FOR KUWAIT TO PRODUCE MORE, SINCE INVESTMENT OUTLETS WOULD BE FORECLOSED. OIL MINISTERS OF OPEC SURPLUS COUNTRIES WOULD COME UNDER INCREASING PRESSURE TO LIMIT PRODUCTION EVEN MORE IF THEY ASSUMED THEIR INVESTMENTS IN THE US WERE BEING DISCOURAGED. "MY MESSAGE," ALI KHALIFA CONCLUDED, "IS PLEASE PUSH THIS MATTER ASIDE FOR A WHILE. THIS IS NOT THE TIME TO RAISE IT (SEC. 892)."

7. IN AN OBVIOUSLY COORDINATED APPROACH, FINANCE MINISTER ATEEQI ECHOED ALI KHALIFA'S CONCERN, WONDERING OUT LOUD WHETHER SURPRISING CHANGE IN US TREATMENT OF FOREIGN GOVERNMENT INVESTMENT IN US HAD NOT BEEN "POLITICALLY MOTIVATED," NOT BY STATE DEPARTMENT BUT UNKNOWN OTHER PARTIES. ATEEQI EMPHASIZED THAT MATTER WAS VERY SENSITIVE, SINCE OIL PRODUCTION AND INVESTMENTS WERE CLOSELY RELATED. ABU SA'UD ALSO UNDERLINED THIS SPECIFIC GOK CONCERN. DETAILS OF DISCUSSION ON SEC. 892 AND UNDER SECRETARY COOPER'S REASSURANCES ALONG LINES REF A IN RESPONSE TO KUWAIT CONCERNS FOLLOW BY SEPTEL, GIVEN TECHNICAL NATURE OF SUBJECT.

8. NORTH/SOUTH ISSUES. IN RESPONSE TO MINISTER ATEEQI'S QUERY, UNDER SECRETARY COOPER OUTLINED OUR VIEWS ON NORTH/SOUTH DIALOGUES AS FOLLOWS:

A. COMMON FUND. WE ARE AT A POINT WHEN WE CAN MAKE A PSYCHOLOGICAL BREAK THROUGH ON COMMON FUND, ON WHICH THERE WILL BE A NEGOTIATING SESSION IN TWO WEEKS TIME. OUR TALKS WITH INDUSTRIAL COUNTRIES AND WITH UNCTAD SECRETARY COREA HAVE INDICATED THAT, ON KEY ELEMENTS CONCERNING COMMON FUND, WE CAN WORK OUT THE MAJOR FEATURES OF A COMMON FUND IF THE G77 IS FLEXIBLE. G77 VIEWS COMMON FUND AS A SYMBOLIC ISSUE WITH IMPORTANCE BEYOND ITS INTRINSIC MERITS. SOME OF THE G77 COUNTRIES WISH TO BE DISRUPTIVE, AND IT IS DIFFICULT FOR A GROUP OF 128 COUNTRIES TO NEGOTIATE FLEXIBLY. UNDER SECRETARY ASKED ATEEQI TO HAVE KUWAIT USE ITS GOOD OFFICES TO PROMOTE FLEXIBILITY WITHIN THE G77 ON THIS ISSUE.

B. UNCTAD. MEETINGS INVOLVING NORTH/SOUTH ISSUES INCLUDE COLOMBO MEETING IN EARLY JANUARY, G77 MEETIN IN FEBRUARY AND THE UNCTAD MEETING IN MAY 1979. UNDER SECRETARY ENCOURAGED KUWAIT TO PLAY A MODERATE AND CONSTRUCTIVE ROLE AND TO

ENCOURAGE THE RIGID AND DOCTRINAIRE POSITIONS THAT SOME MEMBERS OF THE G77 TAKE. HE SAID WE UNDERSTAND THAT SOME COUNTRIES WOULD LIKE TO RAISE INTERNATIONAL MONETARY ISSUES AT THE UPCOMING UNCTAD MEETING AT MANILA. WE HAVE NO PROBLEM WITH DISCUSSING THESE QUESTIONS AT MANILA, BUT WE BELIEVE IT WOULD BE A MISTAKE TO HAVE SUCH ISSUES A PART OF THE UNCTAD WORK PROGRAM IN THE FUTURE BECAUSE (A) IT WOULD DIVERT

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FM AMEMBASSY KUWAIT

TO RUEHC/SECSTATE WASHDC IMMEDIATE 2312

INFO RUQMBI/AMEMBASSY ABU DHABI 4257

RUFHRS/AMEMBASSY ALGIERS 673

ZEN/USINI BAGHDAD POUCH

RUFHBS/AMEMBASSY BUSSELS 6219

RUEHEG/AMEMBASSY CAIRO 2136

RUESRS/AMEMBASSY CARACAS 390

RUQMDH/AMCONSUL DHAHRAN 3830

RUQMOD/AMEMBASSY DOHA 2196

RUKOBI/AMEMBASSY JAKARTA 325

RUQMRA/AMEMBASSY JIDDA 5836

RUTALS/AMEMBASSY LAGOS 342

RUFHLC/AMEMBASSY LIBREVILLE 199

RUDTC/AMEMBASSY LONDON 3196

RUQMAM/AMEMBASSY MANAMA 3392

RUFNPS/AMEMBASSY PARIS 2006

RUESQI/AMEMBASSY QUITO 197

RUQMTI/AMEMBASSY IRIPOLI 1177

RUFHAU/AMEMBASSY VIENNA 368

RUEATRS/USTREAS WASHDC IMMEDIATE

BT

C O N F I D E N T I A L SECTION FINAL OF 5 KUWAIT 6080

RESOURCES AWAY FROM ONGOING PROGRAMS WHICH UNCTAD IS HAVING DIFFICULTIES MAINTAINING ; (B) IT WOULD DEIRACT FROM THE WORK OF THE IMF AND WORLD FINANCE MINISTERS, SINCE UNCTAD IS NOT THE NATURAL FORUM FOR DICUSSIONS OF INTERNATIONAL MONETARY ISSUES. UNDER SECRETARY COOPER SUGGESTED KUWAIT MAY WISH TO RAISE THIS BEKORE THE FORTHCOMING JANUARY 4TH COLOXBO MEETING.

C. COMMITTEE OF THE WHOLE. THERE WAS A "FRACAS IN SEPTEMBER OVER PRECISE TERMS OF REFERENCE, BUT THIS APPEARS TO HAVE BEEN RESOLVED. WE HOPE THAT WHEN THE NEGOTIATIONS BEGIN IN JANUARY WE CAN DEAL WITH SUBSTANTIVE RATHER THAN PROCEDURAL ISSUES, AS HAS HAPPEFED UP TO THE PRESENT.

D. CODE OF CONDUCT. THERE ARE STILL IMPORTANT DIFFERENCES BETWEEN THE UNITES STATES AND THE G77, BUT WHEN WE SIT DOWN THESE MAY NOT BESTHAI SHARP, AS OUR BASIC VIEWS ARE NOT THAT FAR APART/

9. COMMENTING ON UNDER SECRETARY'S PRESENTATION, ATEEQI SAID THAT THE NORTH/SOUTH DIALOGUE, OF COURSE, COVERED A WISE RANGE OF ISSUES, SOME WITHIN HIS SCOPE AND SOME NOT. HOWEVER, HE DECLARED;" I DON'T BELIVE IN NORTH/SOUTH DIALOGUE AT ALLO. I NEVER BELIEVED IN THE SO-CALLED ARAB/EUROPEAN DIALOGUE BECAUSE THERE IS NOTHING IN IT ...AS FOR TECHNOLOGY TRANSFER, I CAN'T PUT A US MIND IN AN AFRICAN OR AN ARAB HEAD/ IF I WANT TECHNOLOGY TRANSFER I HAVE TO PAY TO STUDY AND TO SPEND FOR RESEARCH. I CAN'T INJECT WHAT IS IN MY MIND TO YOU. TRANSFER OF TECHNOLOGY IS A FOOL'S SLOGAN." ATEEQI STRESSED THAT TRYING TO REACH FORMAL AGREEMENT ON "TECHNOLOGY TRANSFER" WAS A MEANINGLESS AND FUTILE EXERCISE SINCE IT WAS HARD ENOUGH JUST TO REACH AGREEMENT IN NEGO-TIATIONS BETWEEN TWO COUNTARIES, MUCH LESS AMONG SCORES OF THEM.

10. THE COMMOND FUND, ATEEQI SAID HE HAD MANY RESERVATIONS ABOUT A COMMODITY FUND, BUT KUWAIT COULD NOT TELL THE G77 NATIONS THAT IT DID NOT SUPPORT THEM. HE DID NOT BELIEVE EITHER THE US OR THE G77 COMMODUTY PROJECTS WILL WORK.

11. UNDER SECRETARY COOPER SAID HE AGREED WITH THE MINISTER ENTIRELY ON THE QUESTION OF TECHNOLOGY TRANSFER--WHICH HAS MEANING ONLY IN TERMS OF BUILDING HUMAN CAPABILITY TO CREATE NEW KNOWLEDGE. HE HOPED THAT AT THE INTERNATIONAL CONFERENCE ON SCIENCE, TECHNOLOGY AND DEVELOPMENT (UPCSTD) NEXT SUMMER, THIS CENTRAL POINT WILL COME THROUGH--WHAT NEEDS TO BE DEALT WITH IS EDUCATION ABOVE ALL. HE SAID HE WAS INTERESTED

IN THE MINISTER'S SKEPTICAL VIEW OF THE COMMON FUND. FOR OUR PART, WE SEE SOMESVALUE IN IT. IT WILL NOT SAVE THE WORLD, BUT IT COULD MAKE A MODEST IMPROVEMENT. ATEEQI INTERJECTED THAT IT WOULD START MODESTLY AND THEN END UP LIKE THE UNITED NATIONS. UNDER SECREZARY COOPER REPLIED THAT THIS WAS JUST WHAT WE WANTED TO AVOID. HE HOPED KUWAIT WOULD EXPRESS ITS STRONG VIEWS AT THE CONFERENCE. THE MINISTER SAID HE PLANNED TO DO SO THROUGH THE OPEC SECRETARIAT. UNDER SECRETARY COOPER CONCLUDED THAT IT WOULD BESHELPFUL TO INTROUDCE REALISM INTO THE NEGOTIATIONS. HE AGREED WITH THE MINISTER THAT THERE ARE DIFFICULTIES ENOUGH WITH A ONE-TO-ONE NEGOTIATION, BUT ADDED THAT WE LIVE IN A WORLD WITH 150 COUNTRIES AND NEED TO TREAT GLOBAL. ISSUES ON A GLOBAL BASIS, DESPITE THE DIFFICULTIES.

12. DURING A WIDE RANGING DICUSSION ON AID POLICY, KUWAUT FUND DIRECTOR GENERAL ABDULLATIF AL-HAMD ARGUED THAT US SHOULD BASESITS AID LESS ON POLITICAL CONSIDERATIONS AND AT LEAST SEGREGATE SOME OF ITS AID FOR PURELY DEVELOPMENTAL PURPOSES. HE EXPRESSED FEAR THAT LACK OF US SUPPORT FOR IDA VI WOULD DISCOURAGE THE OPEC SURPLUS AID/DONORSISWHOSE SURPLUSES WERE DIMINISHING. USAID'S BASIC HUMAN NEEDS (BHN) APPROACH WAS TOO DOGMATIC. UNDER SECRETARY COOPER REPLIED THAT THE RECENT AID BILL SHOWING SIGNIFICANT INCREASE IN US ASSISTANCE; AS A DEMOCRATIC COUNTRY WE HAD TO BE RESPONSIVE TO THE OPINIONS OF TAXPAYERS WHO PAID FOR FOREIGN ASSISTANCE AND BHN WAS MORE POPULAR AND HAD MORE SUPPORT. OPEC AID DONORS SHOULD NOT LQOK AT US PERFORMANCE ON IDA VI AS A BELLWETHER SINCE THE SWING IN PUBLIC SENTIMENT WAS NOW BACK TOWARD BILATERAL ASSISTANCE. IMPORTANT DEVELOPMENT WAS THE OVERALL LEVEL OF US ASSISTANCE, WHICH HAD INCREASED MARKEDLY PN THE PAST YEAR/UNDER SECRETARY ALSO NOTED THAT DIFFERENT COUNTRIES HAVE DIFFERENT PREFERENCES IN ORGANIZING ASSISTANCE POLICIES AND IT WAS MORE IMPORTANT THAT OVERALL EFFORTS INCREASED THAN THAT ALL SUPPORTED THE SAME ENDS.

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TO RUQMKW/AMEMBASSY KUWAIT PRIORITY 4457
INFO RUQMBI/AMEMBASSY ABU DHABI 1706
RUFRRS/AMEMBASSY ALGIERS 0065
RUEHGR/USINT BAGHDAD 0837
RUESRS/AMEMBASSY CARACAS 3529
RUQMOD/AMEMBASSY DOHA 7390
RUKOBT/AMEMBASSY JAKARTA 9679
RUQMRA/AMEMBASSY JIDDA 6065
RUTALS/AMEMBASSY LAGOS 3156
RUYELC/AMEMBASSY LIBREVILLE 0823
RUSBAE/AMEMBASSY NEW DELHI 4312
RUESQI/AMEMBASSY QUITO 0927
RUQMHR/AMEMBASSY TEHRAN 8011
RUQMTI/AMEMBASSY TRIPOLI 6514
RUQMAM/AMEMBASSY MANAMA 2423
RUQMMT/AMEMBASSY MUSCAT 6566

C O N F I D E N T I A L SECTION 01 OF 02 STATE 288453/01

E.O. 11652: GDS

TAGS:ENRG, EINV, FINS, KU, IR, IN

SUBJECT: KUWAITI OIL MINISTER CALLS ON UNDER SECRETARY COOPER

1. KUWAITI OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH CALLED ON UNDER SECRETARY FOR ECONOMIC AFFAIRS COOPER MORNING OF NOV. 13, BEFORE HIS CALLS ON SECRETARIES BLUMENTHAL AND SCHLESINGER. BOTH MINISTER AND COOPER RECALLED THEIR RECENT DISCUSSIONS IN KUWAIT (SEPTEL) AND EXPRESSED AN INTEREST IN MAINTAINING THE FRANK DIALOGUE WHICH HAS BEEN ESTABLISHED BETWEEN THE ECONOMIC OFFICIALS OF BOTH KUWAIT AND THE U.S.

2. IN RESPONSE TO THE MINISTER'S QUERY ABOUT THE CURRENT SITUATION IN IRAN, COOPER NOTED THAT THE GENERAL SITUATION APPEARS TO BE GETTING BETTER. PRODUCTION ON NOV. 12 WAS [illegible] MILLION BPD AND IT WAS HOPED THAT THE 3 MILLION LEVEL MIGHT BE REACHED NOV. 13. SUPERVISORS WERE BACK AT WORK; BLUE COLLAR WORKERS WERE COMING BACK TO WORK IN INCREASING NUMBERS; ONLY JUNIOR, WHITE COLLAR STAFF WERE STILL ON STRIKE IN VERY LARGE NUMBERS. KHARG ISLAND IS STILL NOT

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FUNCTIONING. THE GOVERNMENT OF IRAN (GOI) HAS TAKEN A

STRONG STAND WITH STRIKERS: EITHER THEY MUST RETURN TO WORK OR BE FIRED. IF THEY ARE FIRED, THEY WILL LOSE THEIR COMPANY HOUSING IMMEDIATELY.

3. MINISTER REPLIED THAT LAW AND ORDER MUST BE RESTORED NOW AND THAT HE SAW NO ALTERNATIVE TO THE SHAH'S RECENT ACTIONS. "SINCE THE SITUATION IN THE OIL SECTOR IS A "FUNCTION" OF THE GENERAL SITUATION IN IRAN, IT FOLLOWS THAT OIL PRODUCTION WILL NOT BE FULLY RECOUPED UNTIL PEACE AND LAW AND ORDER ARE RESTORED.

4. COOPER RECALLED
THAT DURING HIS VISIT TO KUWAIT, THE QUESTION OF INCREASED LIFTING HAD BEEN RAISED; HE NOTED THAT IF THE PRESENT SITUATION CONTINUES FOR ANOTHER FEW WEEKS IN IRAN, IT MAY BE NECESSARY TO ASK THE KUWAITIS TO INCREASE THEIR LIFTING. ALI KHALIFA STATED THAT HE HAD BEEN INFORMED THAT THREE TO FOUR DAYS PRODUCTION WORTH OF PETROLEUM HAS BEEN LOST AS A RESULT OF THE IRANIAN STRIKE. THIS IS NOT A SERIOUS SITUATION YET BUT WILL HAVE TO BE COMPENSATED FOR NEXT YEAR WITH INCREASED PRODUCTION, IN ORDER TO MAKE UP THIS AMOUNT AS WELL AS TAKING INTO CONSIDERATION THE ANTICIPATED INCREASED DEMAND. COOPER NOTED THAT SAUDI ARABIA HAS BEEN PRODUCING WELL ABOVE ITS "NORMAL" LEVEL FOR THE PAST SEVERAL DAYS.

5. MINISTER STATED FLATLY THAT IF THE USG WERE PLANNING TO ASK KUWAIT TO INCREASE ITS LIFTINGS, "I CERTAINLY HOPE THE TAXATION ISSUE CAN BE SETTLED." HE NOTED THAT FOLLOWING THE COOPER VISIT TO KUWAIT HE HAD RAISED THE QUESTION OF POSSIBILITY OF INCREASING PRODUCTION WITH THE CABINET AND THAT IT WAS "NOT RECEPTIVE" AS LONG AS THE TAXATION ISSUE WAS UNRESOLVED. ALI KHALIFA HOPED THAT SECRETARY BLUMENTHAL WOULD BE IN A POSITION TO REASSURE THE GOK DURING HIS UPCOMING VISIT. THE MINISTER NOTED THAT HE UNDERSTOOD THAT THE IRS IS "INDEPENDENT," BUT HE HOPED THAT THE USG UNDERSTOOD HOW IMPORTANT HIS GOVERNMENT TREATED THIS ISSUE.

6. COOPER RECALLED HIS LONG CONVERSATION WITH KUWAITI FINANCE MINISTER ATEEQI ON THIS ISSUE (OF THE PROPOSED IRS REGULATION RELATING TO SECTION 892 OF THE IRS CODE). COOPER NOTED THAT THE PROPOSED DRAFT REGULATION HAS BEEN PROMULGATED AND THAT HEARINGS ARE SCHEDULED TO BE HELD AT THE END OF JANUARY. SECRETARY BLUMENTHAL IS THE AUTHORITATIVE VOICE IN THE USG ON THAT SUBJECT AND HE WILL CERTAINLY BE INTERESTED IN THE VIEW OF THE GOK.

7. ALI KHALIFA SWITCHED THE SUBJECT TO THE STATE OF THE DOLLAR. COOPER STATED THAT THE RATES HAVE HELD UP IN THE PAST FEW DAYS AND THAT USG IS HOPEFUL THAT THEY WILL CONTINUE TO DO SO. THE MARKETS ARE SOMEWHAT JITTERY, THERE HAS BEEN SOME PROFIT-TAKING AND CONTINUING DIVERSIFICATION BUT THAT ON THE WHOLE WE ARE PLEASED WITH WORLD REACTION TO OUR NEW POLICY. THE FUNDAMENTALS OF THE U.S. ECONOMY ARE ALL RIGHT AND A COMBINATION OF THIS FACT PLUS THE NEW PROGRAM SHOULD CREATE AN ENVIRONMENT IN WHICH THE DOLLAR HOLDS UP AND IN FACT IMPROVES ON THE WORLD MARKET.

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INFO RUQMBI/AMEMBASSY ABU DHABI 1707
RUFHRS/AMEMBASSY ALGIERS 9066
RUEHCR/USINT BAGHDAD 8836
RUESRS/AMEMBASSY CARACAS 3530
RUQMOD/AMEMBASSY DOHA 7391
RUSOBT/AMEMBASSY JAKARTA 9680
RUQMRA/AMEMBASSY JIDDA 6066
RUTALS/AMEMBASSY LAGOS 3157
RUFHLC/AMEMBASSY LIBREVILLE 9824
RUSBAE/AMEMBASSY NEW DELHI 4313
RUESQI/AMEMBASSY QUITO 0928
RUQMER/AMEMBASSY TEHRAN 6012
RUQMTI/AMEMBASSY TRIPOLI 8515
RUQMAM/AMEMBASSY MANAMA 2424
RUQMMT/AMEMBASSY MUSCAT 6587
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C O N F I D E N T I A L FINAL SECTION OF 02 STATE 288453/02

F. MINISTER REPLIED THAT HE WAS "MORE PESSIMISTIC," THAT LONDON BANKERS WITH WHOM HE HAS BEEN CONSULTING THE PAST FEW DAYS ARE CONVINCED THAT JANUARY/FEBRUARY WILL BE THE REAL TESTING PERIOD FOR THE DOLLAR. INVESTMENT BANKERS ARE NOT CONVINCED THAT THE USG WILL TAKE ALL THE STEPS NECESSARY TO DEFEND THE DOLLAR AND THEY ARE POISED FOR TESTING OF USG WILL IN THIS REGARD IN JAN/FEB. HE THOUGHT THAT THE MARK AND POSSIBLY THE YEN WOULD REMAIN THE PRESSURE POINTS FOR THE DOLLAR.

9. IN RESPONSE TO COOPER QUERY AS TO WHAT WOULD CONVINCE THE INVESTMENT BANKERS THAT THE USG WAS SERIOUS IN ITS DEFENSE OF THE DOLLAR, ALI KHALIFA NOTED LAUGHINGLY THAT "THEY DON'T HEAR GOOD NEWS." COOPER SAID THAT TREASURY IS READY TO DEAL WITH WHATEVER PROBLEMS MIGHT EXIST IN THE MONEY MARKETS.
PROBLEMS MIGHT EXIST IN THE MONEY MARKETS.
10. ALI KHALIFA ASKED FOR MORE DETAILS ON THE ANTI-INFLATION STRATEGY. COOPER REPLIED THAT THE USG ANTI-INFLATION STRATEGY FRAMEWORK HAS ALREADY BEEN STATED AND THAT NOW THE USG IS INVOLVED IN FILLING OUT THAT FRAMEWORK IN THE MOST AFFECTIVE MANNER. PROGRAM IS SUBSTANTIAL AND IMPORTANT AND, CONTRARY TO PRESS TREATMENT OF IT, DOES HAVE SOME TEETH, PARTICULARLY WITH REGARD TO

[illegible]E COMPLIANCE CLAUSE. THE MINISTER WONDERED HOW EFFECTIVE THIS CLAUSE WOULD BE, HOW MUCH OF THE U.S. ECONOMY IS SUBJECT TO USG CONTROL IN THAT MANNER? COOPER REPLIED THAT LARGE SEGMENT OF THE U.S. ECONOMY IS COMPOSED OF USG PURCHASES OF GOODS AND SERVICES, INCLUDING PAYROLLS. MANY U.S. FIRMS ARE NOT DIRECTLY EFFECTED BUT ALL MAJOR FIRMS ARE AND THEY WILL SET THE TONE FOR PRICING FOR OTHER FIRMS. SEVERAL IMPORTANT SECTORS OF THE ECONOMY ARE NOT UNIONIZED, INCLUDING HIGHER EDUCATION, BANKING AND INSURANCE. THESE SECTORS WILL LOOK TO THE GUIDELINES AND PROBABLY ADHERE TO THEM.

11. ALI KHALIFA ASKED COOPER ABOUT THE FUNCTIONING OF THE SEVERAL JOINT COMMISSIONS WHICH THE U.S. HAS ESTABLISHED WITH VARIOUS COUNTRIES OVER THE PAST SEVERAL YEARS. COOPER REPLIED THAT HE WAS LEAVING THAT EVENING FOR INDIA TO CHAIR THE ANNUAL MEETING OF THE INDO-U.S. JOINT COMMISSION. INDIA HAD DECIDED AT THE POLICY LEVEL THAT IT WAS MORE INTERESTED IN FOREIGN INVESTMENT THAN IN THE PAST; BUT AMERICAN BUSINESSES REPORT THAT AT THE BUREAUCRATIC LEVEL, INDIAN ATTITUDES APPEAR NOT TO HAVE CHANGED. COOPER SAID THAT THE VARIOUS JOINT COMMISSIONS HAVE PRODUCED MIXED PATTERNS OF RESULTS; SOME ARE VERY USEFUL, SOME MORE OR LESS MORIBUND. VANCE

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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 4659
INFO RUQMBI/AMEMBASSY ABU DHABI 108
RUFNRS/AMEMBASSY ALGIERS 298
RUEHCR/USINT BAGHDAD 74
RUFHOL/AMEMBASSY BONN 328
RUESUZ/AMEMBASSY BRASILIA 1774
RUFHBS/AMEMBASSY BRUSSELS 228
RUQMDH/AMCONSUL DHAHRAN 230
RUQMOD/AMEMBASSY DOHA 85
RUKOBT/AMEMBASSY JAKARTA 321
RUQMRA/AMEMBASSY JIDDA 326
RUQMKW/AMEMBASSY KUWAIT 283
RUTALS/AMEMBASSY LAGOS 317
RUFHLC/AMEMBASSY LIBREVILLE 93
RUDTC/AMEMBASSY LONDON 1045
RUEHME/AMEMBASSY MEXICO 2620
RUDKSNQ/AMEMBASSY OSLO 56
RUEHOT/AMEMBASSY 309
RUFNPS/AMEMBASSY PARIS 980
RUESQI/AMEMBASSY QUITO 2387
RUFHRO/AMEMBASSY ROME 507
RUQMHR/AMEMBASSY TEHRAN 378
RUEHKO/AMEMBASSY TOKYO 257
RUQMTI/AMEMBASSY TRIPOLI 292
RUFHAU/AMEMBASSY VIENNA 466
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C O N F I D E N T I A L

LIMITED OFFICIAL USE CARACAS 10873

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

E.O. 11652: N/A
TAGS: ENRG OPEC VE
SUBJECT: KUWAITI OIL MINISTER REJECTS REPORTS OF ARAB-U.S. ACCORD ON OIL PRICES

REF: CARACAS 10845

1. VISITING KUWAIT OIL MINISTER SHEIK ALI KHALIFA AL SABAH REJECTED THE POSSIBILITY THAT THE ARAB COUNTRIES WOULD NEGOTIATE

AN OIL PRICE FREEZE WITH THE UNITED STATES OR ANY OTHER COUNTRY "BEHIND THE BACK OF OPEC", WHEN ASKED BY THE PRESS TO COMMENT ON THE VISIT OF TREASURY SECRETARY BLUMENTHAL TO THE MIDDLE EAST. HE INSISTED THAT A DECISION ON PRICES WAS ONE THAT COULD BE TAKEN ONLY WITHIN THE MEMBERSHIP OF OPEC. TOGETHER WITH HIS HOST, ENERGY MINISTER VALENTIN HERNANDEZ, ALI KHALIFA DENIED KNOWLEDGE OF A REPORTED SECRET AGREEMENT BETWEENTHE U.S. AND SAUDI ARABIA ON PRICES, WITH HERNANDEZ ADDING THAT IF IT WERE A SECRET AGREEMENT HE WOULD HAVE NO REASON TO KNOW ABOUT IT AND EVEN LESS TO TALK ABOUT IT. THE TWO MINISTERS ALSO EXPRESSED DOUBTS ABOUT THE ACCURACY OF RECENT PRESS REPORTS THAT SAUDI MINISTER YAMANI PUBLICLY SUPPORTED A PRICE FREEZE, BUT DECLINED TO COMMENT SPECIFICALLY ON THIS POINT.

2. ALI KHALIFA REPORTEDLY DID EXPRESS HIS SUPPORT FOR A PRICING MECHANISM INVOLVING QUARTERLY INCREASES OF BETWEEN TWO AND FIVE PERCENT, SAYING THAT KUWAIT WOULD TAKE SUCH A PROPOSAL TO THE DECEMBER OPEC MEETING, AND EXPECTED IT TO BE ADOPTED BY THE OTHER MEMBERS. WHILE HE AGAIN DECLINED TO SPECIFY THE AMOUNT OF INCREASE KUWAIT WOULD SEEK IN THE DECEMBER MEETING, HE SAID AN INCREASE WAS NECESSARY TO PARTIALLY COMPENSATE FOR THE LOSSES SUFFERED BY THE PRODUCING COUNTRIES DUE TO INFLATION AND CURRENCY DEVALUATIONS. HE WAS QUOTED AS SAYING THAT IF SECRETARY BLUMENTHAL "KNOWS OF NO REASONS IN FAVOR OF AN INCREASE, WE CERTAINLY DO."

3. ALI-KHALIFA IS CLEARLY PROVING MUCH MORE ACCESSIBLE TO THE LOCAL PRESS THAN WAS YAMANI, BOTH BECAUSE OF HIS OWN PERSONALITY AND THE ABSENCE OF THE LARGE CONTINGENT OF BODYGUARDS, WHICH SURROUNDED YAMANI, AND KUWAITI HAS THUS ALREADY RECEIVED MUCH MORE COVERAGE THAN YAMANI IN THE LOCAL PRESS. HIS REPORTED SUPPORT FOR A SYSTEM OF QUARTERLY OIL PRICES INCREASES COINCIDED HERE WITH PRESS REPORTS FROM THAT YAMANI HAD ALSO COME OUT IN FAVOR OF GRADUAL INCREASES; THIS POSITION IS CERTAINLY IN KEEPING WITH THE VIEWS OF MINISTER HERNANDEZ THAT OPEC'S TRADITION OF FOCUSING ONCE OR TWICE A YEAR ON THE PRICE QUESTION ONLY SERVES TO DIVIDE THE ORGANIZATION AND POSTPONE DECISIONS ON OTHER IMPORTANT MATTERS.
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TO RUQMKW/AMEMBASSY KUWAIT PRIORITY 4535
INFO RUQMBI/AMEMBASSY ABU DHABI PRIORITY 1780
RUFHRS/AMEMBASSY ALGIEJS PRIORITY 9117
RUEHCR/USINT BAGHDAD PRIORITY 8906
RUESRS/AMEMBASSY CARACAS PRIORITY 3576
RUQMOD/AMEMBASSY DOHA PRIORITY 7444
RUKOBI/AMEMBASSY JAKARTA PRIORITY 9759
RUQMRA/AMEMBASSY JIDDA PRIORITY 6158
RUTALS/AMEMBASSY LAGOS PRIORITY 3256
RUFHLC/AMEMBASSY LIBREVILLE PRIORITY 9844
RUQMAM/AMEMBASSY MANAMA PRIORITY 2477
RUQMMT/AMEMBASSY MUSCAT PRIORITY 6605
RUFNPS/AMEMBASSY PARIS PRIORITY 2423
RUESQI/AMEMBASSY QUITO PRIORITY 0961
RUQMHR/AMEMBASSY TEHRAN PRIORITY 8130
RUQMTI/AMEMBASSY TRIPOLI PRIORITY 6568
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C O N F I D E N T I A L SECTION 01 OF 02 STATE 292417/11

PARIS FOR IEA

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: SECRETARY SCHLESINGER'S DISCUSSIONS WITH MINISTEJ ALI KHALIFA

1. SUMMARY. DURING 1-1/2 HOUR MEETING ON NOVEMBER 13, ENERGY SECRETARY SCHLESINGER AND MINISTER KHALIFA DISCUSSED THE IRANIAN SITUATION, THE UPCOMING OPEC PRICE DECISION, OPEC PRODUCTIVE CAPACITY, AND IEA/OPEC RELATIONS. SECRETARY SCHLESINGER BRIEFED THE MINISTER ON THE US ENERGY LEGISLATION AND OIL PROSPECTS IN CHINA AND MEXICO. HE ACCEPTED AN INVITATION TO VISIT KUWAIT IF HE TRAVELS TO THE MIDDLE EAST IN EARLY 1979, AS HE IS TENTATIVELY PLANNING. END SUMMARY.

2. WHILE THE IMMEDIATE SITUATION IN IRAN WAS REGARDED AS ENCOURAGING, SECRETARY SCHLESINGER EXQRESSED CONCERN OVER THE LONG TERM CONSEQUENCES OF THE EVENTS IN IRAN. HE SAID THAT IT WOULD BE VERY DIFFICULT TO RECOVER PREVIOUS STABILITY IN THE MIDDLE EAST, AND THAT SHOULD THE SHAH BE THROWN OUT, THE AREA WOULD BE PLAGUED WITH INSTABILITY FOR A DECADE.

3. THE TWO MINISTERS AGREED THAT THE SOVIETS WERE NOT RESPONSIBLE FOR THE IRANIAN TROUBLESBUT MIGHT WELL SEEK TO TAKE ADVANTAGE OF THEM. THEY ALSO AGREED THAT KHOMEINI AND SANJABI WERE LESS ORGANIZED THAN THE EXTREME LEFTIST FORCES IN IRAN. SECRETARY SCHLESINGER SAID THE IRANIAN SITUATION WAS PARTICULARLY DISTRESSING SINCE IT FOLLOWED RECENT EVENTS IN THE TWO YEMENS AND IN AFGHANISTAN. HE SUGGESTED THAT PAKISTAN MIGHT BE THE NEXT PROBLEM SINCE IRAN SERVEDSAS A BUTTRESS TO PAKISTAN. MINISTER KHALIFA SAID THAT VIRTUALLY ALL MIDDLE EAST COUNTRIES, INCLUDING IRAQ, HOPED THE SHAY COULD WEATHER THE CRISIS.

4. MINISTER KHALIFA MAINTAINED THAT AN HONEST GOVERNMENT AND BETTER DISTRIBUTION OF THE COUNTRY'S WEALTH WAS THE LONG-TERM SOLUTION FOR IRAN. SECRETARY SCHLESINGER COMMENTED THAZ THE SHAH'S "WHITE REVOLUTION", WHICH KHOMEINI ATTACKS AIMED AT REDISTRIBUTION OF INCOME.

5. RE THE ABU DHABI PRICE MEETING, KHALIFA SAID THAT HED EXPECTED A "MODERATE" INCREASE (10-15 PERCENT) TO BE THE FINAL OUTCOME. HE SAID NO DECISION HAD YET BEEN MADE AND INTENSE LOBBYING WOULD NOT BEGIN UNTIL DECEMBER. HE SAID THE OPEC MINISTERS WOULD CONSIDER TWO POSSIBLE SCENARIOS: (1) A SINGLE PRICE INCREASE VALID FOR ONE YEAR, AND (2) AN INITIAL INCREASE (E.G., 5 PERCENT) FOLLOWED BY SMALLER INCREASES (E.G., 2-3 PERCENT) EACH QUARTER OVER THE NEXT TWO YEARS. TO SECRETARY SCHLESINGER'S QUERY, HE MAINTAINED THAT THE MARKET WOULD SUSTAIN PERIODIC PRICE INCREASES EVEN IF IRAN RETURNS TO FULL PRODUCTION AND GROWTH RATES IN THE INDUSTRIAL COUNTRIES ARE REDUCED. HE PROJECTED DEMAND FOR OPEC OIL IN 1979 AT 31.5-32 MMBD, UP FROM 29-30 MMBD IN 1978.

6. MINISTER KHALIFA SAID THAT HE WAS CERTAIN PRACTICAL OPEC PRODUCTION CAPACITY WAS DRAMATICALLY LESS THAN THE 38 MMBD THAT IS SOMETIMES REPORTED. USING KUWAIT AS AN EXAMPLE, HE SAID THAT ITS OFFICIAL CAPACITY WAS 3.8 MMBD BUT PRACTICAL CAPACITY WAS ONLY 2.5 MMBD. HE NOTED THAT SAUDI ARABIA, WHILE CURRENTLY PRODUCING OVER ITS CEILING BECAUSE OF THE IRANIAN SITUATION, WOULD NOT OBJECT TO A PRODUCTION LEVEL OF LESS THAN THE 8.5 MMBD CEILING.

7. SECRETARY SCHLESINGER SUGGESTED THAT THE IEA WAS ENGAGEDSIN SOME ACTIVITIES -- QROMOTING CONSERVATION, DEVELOPING AN EQUITABLE AWLOCATION SYSTEM FOR SHARING OIL IN TIMES OF SHORTAGE -- THAT WOULD ALSO HOLD BENEFITS FOR OPEC. HE SAID THAT THE IEA NO LONGER WAS A CONFRONTATIONAL ORGANIZATION AND WONDERED IF IT COULD BE USED TO FACILITATE BETTER PRODUCER/CONSUMER COOPERATION. MINISTER KHALIFA SAID THAT MOST OPEC NATIONS WERE ON PUBLIC RECORD IN OPPOSITION TO IEA. NO FORMAL IEA/OPEC DIALOGUE WAS NOW POSSIBLE, ALTHOUGH INFORMAL INFORMATIONAL EXCHANGE AT STAFF LEVEL COULD BE USEFUL. ACCORDING TO MINISTER KHALIFA, THE PRODUCERS AND CONSUMERS SHOULD SPEND THE NEXT TWO YEARS DECIDING AMONG THEMSELVES THEIR OWN NEEDS AND PRIORITIES (AS THE OPEC MEMBERS WOULD DO IN THE NEW STRATEGIC COMMITTEE) AFTER WHICH TIME SOME TYPE OF REPRESENTATIVE PRODUCER/CONSUMER DIALOGUE MIGHT BE POSSIBLE. IN SUCH A DIALOGUE, ONLY NATIONAL MINISTERS WOULD SPEAK, BUT OPEC AND IEA COULD ATTEND AS OBSERVERS.

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C O N F I D E N T I A L FINAL SECTION OF 02 STATE 292417/02

PARIS FOR IEA

8. SECRETARY SCHLESINGER ASSURED THE MINISTER THAT THE NEW US ENERGY PROGRAM WOULD BE RIGOROUSLY IMPLEMENTED AND WOULD BE EFFECTIVE. HE SAID HE WOULD USE THE AUTHORITY TO THE MAXIMUM TO FORCE THE BURNING OF COAL IN INDUSTRIAL AND UTILITY BOILERS. THEHCONSERVATION PROVISIONS OF THE LEGISLATION WILL HAVE A SUBSTANTIAL IMPACT. THE PROVISIONS ON NATURAL GAS PRICING SHOULD PRODUCE CONSIDERABLE QUANTITIES OF NEW GAS AND IN THEMSELVES ENSURE A REDUCTION IN US OIL IMPORTS BY MORE THAN ONE MMBD BY 1985. THE IMPACT OF ALL THE NEW LEGISLATION WILL BE TO REDUCE OIL IMPORTS IN 1985 BY 2.5-3 MMBD BELOW THE LEVEL THEY OTHERWISE WOULD HAVE BEEN. THE SECRETARY SAID THAT WE NOW EXPECT 1985 OIL IMPORTS TO BE AROUND 9 MMBD.

9. RESPONDING TO MINISTER KHALIFA'S QUERY, SECRETARY SCHLESINGER ADMITTED THAT SOME OF THE ADMINISTRATION INFLATION FIGHTERS WERE EXERTING PRESSURE AGAINST RAISING US DOMESTIC OIL PRICES TO WORLD LEVELS. THE DECISION ON THIS ISSUE WOULD BE TAKEN NEXTHYEAR. THE SECRETARY EXPRESSED A STRONG VIEW THAT THE PRICES SHOULD BE RAISED.

10. SECRETARY SCHLESINGER BRIEFED MINISTER KHALIFA ON OIL PROSPECTS IN CHINA AND MEXICO. HE PLACED CHINESE TOTAL (PROVED AND UNPROVED) RESERVES AT 100 BILLION BARRELS (CITING A CIA PUBLICATION), HALF OF WHICH WAS ON-SHORE AFD THE REMAINDER OFF-SHORE. HE EXPECTED THE CHINESE TO USE WESTER

FIRMS TO EXPLORE FOR OIL IN THE OFFSHORE AREAS. HE NOTED THAT THE CHINESE ARE OVER OPTIMISTIC ABOUT THE AMOUNT OF REVENUES THEY COULD EXPECT IN THE NEXT FEW YEARS FROM OIL EXPORTS.

11. SECREZARY SCHLESINGER CITED MEXICAN ESTIMATES OF 60 BILLION BARRELS OF PROVEN RESERVES AND SAID MEXICO PROBABWY HAD MORE THAN AN ADDITIONAL 100 BILLION BARRELS IN RESERVES. HE ANTICIPATED MEXICAN PRODUCTION OF 4-5 MMBD BY 1985, 3 MMBD OF WHICH WOULD BE EXPORTED.

12. SECRETARY SCHLESINGER MENTIONED THAT HE WAS TENTATIVELY PLANNING A TRIP TO THE MIDDLE EAST IN EITHER JANUAJY OR THE EARLY SPRING. HE RESPONDED POSITIVELY TO THE MINISTER'S INVITATION TO VISIT KUWAIT AT THAT TIME. VANCE BT

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MEMORANDUM OF CONVERSATION

DATE: November 29, 1978

PLACE: Political Officer's Residence

SUBJECTS : Kuwaiti University Students; Iran and Kuwait; Opposition to Ruling Family; Moslem Conservatism; Shi'ites; Biographic Information

PARTICIPANTS: Mohammad Al-Rumaihi, Kuwait University Professor and Editor-in-Chief of Arab Times
Peter A. Sutherland, DCM, American Embassy, Kuwait
James L. Clunan, Political Officer, American Embassy, Kuwait

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(C) Background

(C) During a reception held by the Ambassador for visiting Treasury Secretary Blumenthal and his delegation, Rumaihi told the Secretary that he shouldn't be talking to the people at this reception; if he really wanted to know what was going on in Kuwait and who would be in charge in a few years, he should be looking elsewhere. We followed up on these remarks by inviting Rumaihi to lunch. Over the course of three hours' discussion, the following emerged.

(U) Rumaihi, who teaches at the University, told us he devotes the early part of the morning to lectures and classes. Later in the day he goes about his business around town but is not compelled to spend a fixed number of hours at his newspaper. Close supervision there is exercised by others. This regime gives Rumaihi time to contemplate Kuwait society and its defects.

(U) Kuwaiti University Students

(U) Rumaihi said that a number of students are suffering hardships because of the rapid rise in the cost of living. Of course, the Government provides free education, but the student is on his own as

Drafter: POL:JLClunan:bms 12/17/78

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RDS 12/17/88 (MAESTRONE, FRANK E.) OR-M

far as housing and meals are concernced. A majority of students are taking part-time jobs to make ends meet. None of this struck us as particularly troublesome, in view of the number of Americans who have to work their way through college. Rumaihi acknowledged this point, but went on to note the important factor for the students is the appearance of hardship in comparison to others. In contrast to the wealthy and well-to-do, a number of students classify themselves as "poor."

(C) There are also social pressures on the student brought by the great wealth displayed by some members of the student body. Some female students come to class with a brand new outfit every third day but most do not. More and more of the latter, who cannot keep up with the competition in clothing, are taking to the traditional costume of Kuwaiti women, veil and all.

(C) Sutherland cited the study by Tawfic Farah which concludes that Kuwaitis in the University place their religion ahead of other allegiances, including their family, country, and race. (The study is to appear in the December 1978 issue of the Journal of Social Psychology.) Rumaihi agreed that students are showing greater interest in Islam. It serves as a mask for rebellion, he said. In this regard, Rumaihi addressed himself to the notion of "sharing power." The ruling family does not do this, and students resent it, as well as their relative "poverty." The conventional outlets for this resentment do not exist: There are no student organizations that matter; the press is controlled; there is no National Assembly. Absent these, the students join Moslem groups and vent their dissatisfaction under cover of exhorting the Government to be more zealously Moslem in its conduct.

(C) Iran and Kuwait

(C) Events in Iran are the central topic of conversation. Rumaihi thought the events there boded ill for Kuwait, in that history would not precisely repeat itself here but that some of the disabilities of the regime in Iran are also present here.

(C) Opposition to Ruling Family

(C) He referred to corruption. "The Shah is in his twilight. His authority has been undermined by the corruption of those around him, those he trusted. I have analyzed these in my recent article in al-Siyassa." Rumaihi said: "In former times the rulers of Kuwait and their family were not vulnerable to charges of corruption." The Sabahs had remained aloof from business, but in the middle 60's the family entered commerce and finance in a big way. Traditionally, the Sheikh of an Arab tribe did not directly involve himself in the business of the tribe so that he could remain impartial; he relied on the members of the tribe to provide for his livelihood, which they did for so long as he deserved it. The Sabahs traditionally

had this role in Kuwait even as the society evolved from a tribal one to a mixed commercial cum desert community. When in the old days the men of the great commercial families and the captains and fishermen went away for months, the Sabahs were left behind to look after the town and the welfare of the women. In short, they were guardians, but now the Sabahs have abandoned this tradition and people are beginning to say they thereby have lost their Sheikhly claim to authority.

(C) Rumaihi also alluded to discontent with the Sabahs among the wealthy merchant families who resent the inroads made by the Sabahs into business areas where the profits traditionally would have been reserved to such families.

(C) Clunan said Kuwaitis had assured him that Kuwait would not go the way of Iran because of its attention to the welfare of all its people. Elaborating this thesis, which we have heard most recently from the Chief of Staff, Kuwait Armed Forces, Clunan explained that the extensive social welfare schemes in Kuwait are said to deny the possibility of discontent such as that which has arisen among the Iranian middle class who are afflicted with inflation and the poor people who are left out of the modernization process. Rumaihi scoffed at this notion. For one thing, he noted it leaves out half the residents of Kuwait who, not being Kuwaitis, get fewer social benefits as well as lower pay for doing the same job as Kuwaitis who work alongside them.

(C) Moslem Conservatism

(C) Rumaihi's sharpest comments centered not on the defects of Kuwait's elaborate social welfare scheme but on the flaws of the leadership. Besides corruption, Rumaihi spoke of hypocrisy. The introduction of stricter law in accordance with Moslem tradition would not affect the scofflaw attitude of Establishment Kuwaitis. He cited such examples as the prohibition on alcohol and modesty in bathing costumes, both already introduced, and most recently the proposed application of Sharia Law to criminal punishment which is proposed in the new Penal Code. Rumaihi voiced the usual criticisms of this proposed measure, namely the likelihood that it would be enforced according to a double standard, its unsuitability in the modern world, and the lack of thorough modern and psychological research into the causes of the "upsurge" in crime that was cited as the principal justification of the new Penal Code by its advocates.

(C) Rumaihi predicted that, after all the debating, the arguments in the press and the rest of the uproar, the Government will introduce the Code without important changes, just as they had done last summer with the Rent Law. He said that, without Parliament and other reliable institutions for gauging the people's views, the Government will be able to claim great public support for the measures by citing selected statements in the newspapers.

(C) While the hypocrisy and the anachronism associated with the new Penal Code are troubling, Rumaihi was more worried that conservative religious pressures would get out of control. As in Iran, they arise in many cases from an emotional, rather than a reasoned, reaction to the modern world. The real danger in it all lay in the leadership's failure to see clearly where the revival of religious conservatism would lead. "What is next?" he asked rhetorically. After the criminal code we could see the enforcement of the Zakah (Islamic taxation) and then why not the prohibition of insurance and the taking of interest? For Kuwait, which intends to rely increasingly on such income as a major national resource, such a proposition is ludicrous. Moreover, full application of Islamic law would challenge the legitimacy of the rule by the Sabahs, who after all have no claim to the Caliphate.

(C) Shi'ites

(C) Clunan asked about Shi'ites. Rumaihi did not seem well informed but offered these points. There are no important Shi'ite Imams here. Some Shi'ites have circulated leaflets. "I have seen some of them; they are critical of the Shah and the Amir as well."

(C) COMMENT

(C) Despite his tantalizing remarks to Secretary Blumenthal, Rumihi did not ever clearly say who he expected would be running Kuwait in a few years time.

(C) Biographic Information

(C) Rumaihi said he was not popular with the authorities; he gave examples. He had had his passport lifted for two months at the end of the summer after returning from London where he had made public statements which the Government did not like. Also, he has been stripped of editorship of the Journal of the Gulf and Arabian Peninsula Studies, a scholarly quarterly.

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RUESRS/AMEMBASSY CARACAS IMMEDIATE 410
RUQMDH/AMCONSUL DHAHRAN IMMEDIATE 3846
RUQMOD/AMEMBASSY DOHA IMMEDIATE 2245
RUKOBT/AMEMBASSY JAKARTA IMMEDIATE 345
RUQMRA/AMEMBASSY JIDDA IMMEDIATE 5910
RUTALS/AMEMBASSY LAGOS IMMEDIATE 364
RUFHLC/AMEMBASSY LIBREVILLE IMMEDIATE 221
RUDTC/AMEMBASSY LONDON IMMEDIATE 3625
RUQMHR/AMEMBASSY TEHRAN IMMEDIATE 4619
RUQMTI/AMEMBASSY TRIPOLI IMMEDIATE 1205
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C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 6591

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DEPT PASS TREASURY

E.O. 11652: GDS 12/11/84 (MAESTRONE, FRANK E.) OR-M
TAGS: ENRG, OPEC, KU, US
SUBJECT: FOLLOW-UP TO SECRETARY BLUMENTHAL'S MIDDLE EAST TRIP

REF: STATE 310048 (NOTAL)

1. (C-ENTIRE TEXT) SUMMARY: DURING DEC 11 MEETING WITH KUWAIT OIL MINISTER PRIOR TO HIS DEPARTURE TO ABU DHABI TO ATTEND OAPEC AND OPEC MEETING THERE, I REFERRED TO CONSIDERATIONS PRESENTED BY SECRETARY BLUMENTHAL DURING HIS NOV 21-22 VISIT TO KUWAIT WITH RESPECT TO FORTHCOMING OPEC PRICE DECISIONS. THE MINISTER INDICATED HIS DISAGREEMENT WITH THE BLUMENTHAL POSITION AND EXPRESSED THE VIEW THAT FAILURE TO INCREASE THE PRICE OF OIL WOULD BE UNFAVORABLE TO BOTH US AND KUWAITI INTERESTS IN TERMS OF STIMULATING ALTERNATIVE SOURCES OF ENERGY. HE INDICATED SUPPORT FOR A "MODERATE" PRICE INCREASE WITHOUT DEFINING THIS IN PERCENTAGE TERMS, BUT STRESSED THAT HIS OBJECTIVE AS THIS YEAR'S PRESIDENT OF OPEC WAS TO MAINTAIN OPEC UNITY DURING THE MEETING. HIS AIM, THEREFORE, WAS TO REACH A "REASONABLE COMPROMISE" AGREEABLE

TO ALL MEMBERS. THE OIL MINISTER DID NOT EXPECT THE CURRENCY BASKET QUESTION TO RECEIVE MUCH DISCUSSION AND HOPED TO AVOID ANY DETAILED CONSIDERATION OF THE MATTER. END SUMMARY.

2. I WAS UNABLE TO MEET WITH OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH UNTIL DEC 11 BECAUSE OF HIS UNAVAILABILITY DUE TO REGULAR SUNDAY CABINET MEETING DEC 10. BY THE TIME I MET HIM, HE HAD ALREADY RECEIVED HIS FINAL INSTRUCTIONS FROM THE AMIR PRIOR TO HIS DEPARTURE TO ABU DHABI THE SAME EVENING WHERE HE WOULD FIRST ATTEND OAPEC MEETING BEGINNING DEC 12 AND THEN STAY ON FOR THE OPEC MEETING DEC 16.

3. I OPNED MY DISCUSSION WITH THE MINISTER BY NOTING HE HAD HAD A FULL DAY OF MEETINGS WITH SECRETARIES BLUMENTHAL AND SCHLESINGER AND UNDER SECRETARY COOPER DURING HIS NOV 11 WASHINGTON VISIT. HE OBSERVED THAT HE HAD A GOOD EXCHANGE OF VIEWS WITH SCHLESINGER AND COOPER, BUT THAT HIS MEETING WHILE SECRETARY BLUMENTHAL WAS A BIT "TENSE." (WHICH I RECEIVED REPORTS OF THE SCHLESINGER AND COOPER MEETINGS, REGRETTABILITY I HAD NO INFORMATION CONCERNING THE BLUMENTHAL MEETING DESPITE MY REQUEST FOR THIS TO THE TREASURY DELEGATION VISITING KUWAIT.) ALI KHALIFA WENT ON TO NOTE THAT HE FOUND THE TWO PAPERS GIVEN BY TREASURY TO FINANCE MINISTER AL-ATEEQI UNWORTY OF THE LEVEL OF FINANCIAL EXPERTISE REPRESENTED IN KUWAIT.

4. FOLLOWING THIS LESS THAN SATISFACTORY OPENING TO OUR CONVERSATION, I TOLD THE OIL MINISTER THAT I DID NOT WANT TO REVIEW THE POINTS MADE BY SECRETARY BLUMENTHAL DURING HIS VISIT HERE BECAUSE I WAS SURE HE WAS ALREADY FAMILIAR WITH THEM. I DID, HOWEVER, WANT TO EMPHASIZE WHAT I CONSIDERED A SIMPLE AND INCONTROVERTIBLE FACT, NAMELY THAT ANY INCREASE IN THE PRICE OF OIL WAS BOUND TO HAVE A PROFOUNDLY UNFAVORABLE EFFECT OF WORLD ECONOMY. ALL KHALIFA CHOSE TO DISAGREE EVEN ON THIS POINT, STRSSING HIS VIEW THAT FALIURE TO INCREASE THE PRICE OF OIL WOULD DO BOTH US AND KUWAITI INTERESTS A GREAT " DISFAVOR." HE MAINTAINED THAT WITHOUT THIS KIND OF INCENTIVE, EFFORTS TO DEVELOP ALTERNATIVE SOURCES OF ENERGY WOULD NOT BE STIMULATED. IN REBUTTAL, I SUGGESTED THAT TECHNOLOGY COULD NOT BE REGARDED JUST AS A FUNCTION OF FINANCIAL INCENTIVE.

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RUQMOD/AMEMBASSY DOHA IMMEDIATE 2246

RUKOBT/AMEMBASSY JAKARTA IMMEDIATE 346

RUQMRA/AMEMBASSY JIDDA IMMEDIATE 5911

RUTALS/AMEMBASSY LAGOS IMMEDIATE 365

RUFHLC/AMEMBASSY LIBREVILLE IMMEDIATE 222

RUDTC/AMEMBASSY LONDON IMMEDIATE 3626

RUQMHR/AMEMBASSY TEHRAN IMMEDIATE 4620

RUQMTI/AMEMBASSY TRIPOLI IMMEDIATE 1206

RUFHAU/AMEMBASSY VIENNA IMMEDIATE 390

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5. RETURNING TO MORE SPECIFIC ECONOMIC MATTERS, I STRESSED THAT A SUBSTANTIAL OIL PRICE INCREASE WOULD HAVE A DEPRESSING EFFECT UPON THE DOLLAR, WHICH WOULD BE CONCERN TO KUWAIT WITH ITS OIL-GENERATED DOLLAR INCOME AND ITS EXTENSIVE INVESTMENTS IN THE US. I REMARKED THAT THIS FACTOR SEEMED TO BE APPRECIATED BY THE OTHER GULF STATES WHERE AN APPARENTLY MODERATE VIEW REGRDING A PRICE INCREASE PREVAILED IN CONTRAST TO KUWAIT'S VIEW WHICH WAS GENERALLY DESCRIBED AS MORE EXTREME IN THIS RESPECT. I OBSERVED THAT, BECAUSE OF THE PUBLICITY GIVEN ALI KHALIFA AS PRESIDENT OF OPEC DURING THE PAST YEAR, KUWAIT'S ROLE WAS BOUND TO BE A FOCUS OF ATTENTION AT THE FORTHCOMING OPEC MEETING.

6. RECALLING THAT KUWAIT SHARED MANY MUTUAL INTERESTS, BOTH IN BILATERAL TERMS AND WITH RESPECT TO THE WORLD AT LARGE, I EXPRESSED THE HOPE THAT THESE CONSIDERATIONS WOULD BE TAKEN INTO ACCOUNT AS HE PARTICIPATED IN THE OPEC DELIBERATIONS. I NOTED THAT IN SECRETARY BLUMENTHAL'S MEETING WITH THE AMIR THE LATTER STATED THAT KUWAIT WOULD ACT WITH REASON AND MODERATION WITH RESPECT TO AN OIL PRICE INCREASE. THE

AMIR HAD SAID THAT KUWAIT DID NOT WANT TO HURT THE WORLD ECONOMY AND IT RECOGNIZED INTERDEPENDENCE. I CONCLUDED THESE COMMENTS BY NOTING THAT THE OIL MINISTER HAD ALREADY MET WITH THE AMIR THAT MORNING AND PRESUMABLY HAD CLARIFIED KUWAIT'S POSITION FOR THE OPEC MEETING.

7. ALI KHALIFA STATED THAT KUWAIT'S POSITION WAS QUITE CLEAR; AS PRESIDENT OF OPEC HIS OBJECTIVE WAS TO PRESERVE OPEC UNITY IN THIS MEETING. HE WOULD, THEREFORE, SEEK TO ACHIEVE A "REASONABLE COMPROMISE" AGREABLE TO ALL OPEC MEMBERS.

8. I EXPRESSED THE HOPE THAT ANY PRICE INCREASE WOULD BE A VERY MODERATE ONE, NOTHING I DID NOT CONSIDER 10 PERCENT MODERATE. I SUGGESTED THAT, IF THERE WAS ANY THOUGHT OF ESTABLISHING A SYSTEM OF PERIODIC PRICE INCREASES, IT WOULD BE SUBJECT TO REVIEW BEFORE ADDITIONAL INCREASES BEYOND THE FIRST ONE WERE PUT INTO EFFECT. ALI KHALIFA REJECTED THIS SUGGESTION, NOTHING THAT HIS CREDIBILITY AS PRESIDENT WOULD BE JEOPARDIZED IF HE TOOK THIS POSITION. HE EXPLAINED THAT, DURING THE GENEVA OPEC MEETING EARLIER IN THE YEAR ON THE SUBJECT OF A CURRENCY BASKET, HE HAD DELAYED ANY ACTIVE CONSIDERATION OF THIS MATTER BY USING THOSE PRECISE TACTICS. AS A RESULT, HE WAS ABLE TO FORESTALL ANY CONSIDERATIONS OF THE CURRENCY BASKET. (FYI: THIS STORY CERTAINLY DOES NOT CONFORM TO REPORTS AND CONVERSATIONS WHICH I HAD WHICH CONFIRMED THAT ALI KHALIFA WAS A PROPONENT OF THE CURRENCY BASKET. END FYI) IN RESPONSE TO MY QUERY, THE OIL MINISTER SAID HE DID NOT EXPECT THE CURRENCY BASKET QUESTION TO BE CONSIDERED DURING THIS OPEC MEETING AND , INDEED, HOPED THERE WOULD BE NO DISCUSSION OF IT.

9. CONCLUDING OUR DISCUSSIONS, I THANKED THE OIL MINISTER FOR RECEIVING ME AT SUCH A BUSY MOMENT ON THE DAY OF HIS DEPARTURE.

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E.O. 12065: GDS 12/12/84 (MAESTRONE, FRANK E.) OR-M
TAGS: PEPR, ENRG, IR, KU
SUBJECT: IRANIAN REQUEST FOR SUPPLIES OF KEROSENE AND GAS OIL

1. DURING A DEC 11 MEETING WITH OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH ON ANOTHER SUBJECT, I RECALLED THAT IN MY DEC 9 MEETING WITH THE ACTING FOREIGN MINISTER/MINISTER OF STATE FOR CABINET AFFAIRS HUSSEIN, THE LATTER TOLD ME OF AN IRANIAN (NIOC) REQUEST SUBMITTED TO KUWAIT FOR THE SUPPLY OF 250,000 TONS EACH OF KEROSENE AND GAS OIL. THE OIL MINISTER CONFIRMED THIS AND SAID HE HAD MET WITH A NIOC DELEGATION THE PREVIOUS DAY. KUWAIT WAS NOT ABLE TO FURNISH SUCH LARGE QUANTITIES OF THESE PRODUCTS BUT WOULD DO WHAT IT COULD TO MAKE CERTAIN SUPPLIES AVAAILABLE TO IRAN DURING THIS MONTH. HOWEVER, THIS WAS DIFFICULT BECAUSE KUWAITI PRODUCTION WAS ALREADY COMMITTED TO MANY REGULAR CUSTOMERS. NEVERTHELESS, THE OIL MINISTRY WAS TRYING TO PERSUADE INDONESIA TO PERMIT THE DIVERSION TO IRAN OF A TANKER LOAD OF
[illegible],000 BARRELS OF KEROSENE. IT WAS ALSO SEEKING TO PURCHASE FOR IRANIAN ACCOUNT A TANKER LOAD OF KEROSENE FROM ITALY WHERE A KUWAITI TANKER WAS DELIVERING REFINERY PRODUCTS.

2. THE SUPPLY OF GAS OIL WAS LESS DIFFICULT, ALTHOUGH KUWAIT DID NOT HAVE THE QUANTITIES DESIRED AVAILABLE. HOWEVER, ALI KHALIFA SAID THAT 50,000 BARRELS OF GAS OIL WOULD BE SUPPLIES THIS MONTH AND A SIMILAR SUPPLY NEXT MONTH IF IT WERE STILL NEEDED.

3. THE OIL MINISTER ALSO NOTED THAT SAUDI ARABIA WAS APPARENTLY GOING TO HELP IN THIS RESPECT. THE NICO DELEGATION WAS ALSO GOING TO BAHRAIN AND THE OTHER GULF STATES TO TRY TO OBTAIN SUFFICIENT QUANTITIES OF THESE PRODUCTS. ALI KHALIFA INDICATED THAT HE WAS CERTAIN KUWAIT AND THE OTHER GULF STATES WOULD DO WHAT THEY COULD TO SUPPORT IRAN DURING THIS EMERGENCY SITUATION.

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RUFHOL/AMEMBASSY BONN 475
RUFHBS/AMEMBASSY BRUSSELS 643
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RUFHMD/AMEMBASSY MADRID 106
RUESQI/AMEMBASSY QUITO 207
RUFNPS/AMEMBASSY PARIS 2026
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RUQMHR/AMEMBASSY TEHRAN 4595
RUDKGPQ/AMEMBASSY THE HAGUE 127
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E.O. 12065: GDS 12/1/84 (BUCK, STEPHEN W) OR-3, (C-ENTIRE TEXT)
TAGS: OPEC, EFIN, ENRG, KU
SUBJ: SECRETARY BLUMENTHAL'S VISIT TO KUWAIT - MEETINGS WITH FINANCE MINISTER ATEEQI - PART II

1. CLASSIFICATIION OF THIS TELEGRAM APPLIES TO ALL PARAGRAPHS.

2. AFTER MEETINGS WITH THE AMIR AND CROWN PRINCE (SEPTELS), FINANCE MINISTER ATEEQI, TREASURY SECRETARY BLUMENTHAL AND THEIR PARTIES RETURNED TO THE HILTON HOTEL FOR CONTINUATION OF DISCUSSION BEGUN ON THE MORNING OF NOV. 22. PARTIES WERE JOINED IN THESE TALKS BY SENATOR LUGAR AND CONGRESSMEN CAVANAUGH, STANTON, AND HYDE.

3. SECRETARY BLUMENTHAL STARTED OFF THE MEETING BY HANDING ATEEQI TREASURY ESTIMATES FOR THE U.S. CURRENT ACCOUNT OUTLOOK FOR 1978 AND 1979 INDICATING A DROP IN THE CURRENT ACCOUNT DEFICIT FROM 17 BILLION DOLLARS IN 1978 TO 5 BILLION DOLLARS IN 1979. COMMENTING ON MINISTER ATEEQI'S EARLIER REMARKS, SECRET-

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ARY BLUMENTHAL SAID THAT CLEARLY U.S. COULD NOT--AND WOULD NOT WANT TO--DICTATE WHAT THE OPEC OIL PRICE WOULD BE. ALSO IT WAS OBVIOUS THAT OIL IS A KEY ELEMENT AFFECTING WORLD ECONOMY. THERE WAS NO DENYING THAT OIL PRODUCERS HAD INCURRED LOSSES BECAUSE OF THE DECLINE IN THE DOLLAR AND INFLATION. HOWEVER IT WOULD NOT BE REALISTIC TO TRY TO GO BACK TO THE BEGINNING OF 1977 TO MAKE UP ENTIRELY FOR WHATEVER LOSSES THERE WERE. TRYING TO MAKE UP FOR A HYPOTHETICAL 23 PERCENT OR 24 PERCENT LOSS IN REAL OIL PRODUCER REVENUE WOULD JUST ACCELERATE THE WHOLE VICIOUS CYCLE OF INFLATION. AS FOR THE MINISTER'S QUESTION REGARDING THE BASE ON WHICH A 10 PERCENT INCREASE IN THE VALUE OF THE DOLLAR OR 10 PERCENT INCREASE IN OIL PRICE WOULD BE ESTIMATED, IT WOULD BE ON THE SITUATION AS IT IS NOW, NOT THAT IN PREVIOUS YEARS (SUCH AS 1973 OR 1974 AS MINISTER ATEEQI HAD SUGGESTED).

4. TAX EXEMPT STATUS OF FOREIGN GOVERNMENT INVESTMENT IN U.S. (SEC. 892). MINISTER ATEEQI SAID KUWAIT APPRECIATES THE MOVES PRESIDENT CARTER HAD UNDERTAKEN TO TRY TO CURB INFLATION. KUWAIT BELIEVES IN THE STRENGTH OF THE AMERICAN ECONOMY. IT KNOWS THAT THE DOLLAR'S DECLINE HAS BEEN EXAGGERATED AND IS MOSTLY A RESULT OF SPECULATION. HOWEVER, WHATEVER HAS HAPPENED TO THE DOLLAR IS VERY SMALL IN RELATION TO THE GIANT ECONOMY OF THE UNITED STATES AND THE STRENGTH OF THE UNITED STATES. THEREFORE, THERE MUST BE SOMETHING POLITICAL IN THE DECLINE OF THE DOLLAR. THERE IS A LOT THE U.S. CAN DO ABOUT IT, THE MATTER BEING ESSENTIALLY INTERNAL AND NOT EXTERNAL. KUWAIT VIEWS THE UNITED STATES AS A MARKET, AN ECONOMY TO WHICH IT CAN LOOK FOR CONTINUITY, A COUNTRY WITH INTEGRITY IN WHICH IT CAN TRUST. KUWAIT HAS INVESTED IN THE UNITED STATES FOR MANY, MANY YEARS ON THE ASSUMPTION THAT CERTAIN LAWS WERE APPLICABLE--IN FACT, FOR 28 YEARS, SINCE 1950. NOW, IT IS SUDDENLY FACED WITH THE TROUBLING PROSPECT OF NEW
INTERPRETATIONS OF THE LAW ARE TO BE APPLIED RETROACTIVELY. A COUNTRY LIKE KUWAIT CANNOT CARRY OUT AN INVESTMENT POLICY IF FACED WITH ABRUPT CHANGES WHICH HAVE A VERY DAMAGING EFFECT ON INVESTOR CONFIDENCE. THERE HAS BEEN A NEW INTERPRETATION THIS YEAR. WILL THIS MEAN THERE WILL BE ANOTHER NEW INTERPRETALSON NEXT YEAR, AND SO ON?

5. MINISTER OBSERVED THAT, WITH RESPECT TO THE DIFFERENCE BETWEEN "PASSIVE" AND COMMCIAL INVESTMENT, ONE COULD AGYUE THAT THE STOCK MARKET IS COMMERCIAL. WOULD THAT MEAN THAT ALL KUWAIT STOCK MARKET TRANSACTIONS WERE ALSO TAXABLE? UNITED STATES IS A SOVEREIGN COUNTRY, AS IS KUWAIT. OBVIOUSLY THE U.S. COULD DO WHAT IT PLEASED REGARDING INVESTMENT INSIDE THE U.S. BUT IF IT DID, KUWAIT WOULD HAVE TO WEIGH WHETHER TO STAY IN OR GET OUT. AT LEAST THE U.S. WOULD HAVE TO GIVE KUWAIT AMPLE TIME TO DEFINE ITS POLICY IN LIGHT OF THE NEW SITUATION REGARDING FOREIGN GOVERNME
P INVESTMENT. THIS WAS TOO BAD, SINCE SUCH INVESTMENT WAS NOT ONLY GOOD FOR KUWAIT BUT ALSO THE UNITED STATES. IF KUWAIT HAD TO CHANGE ITS INVESTMENT
BT
#6421

CONFIDENTIAL

RUQMHR/AMEMBASSY TEHRAN 4596 CONFIDENTIAL
RUDKGPQ/AMEMBASSY THE HAGUE 128
RUQMTI/AMEMBASSY TRIPOLI 1193
RUFHAU/AMEMYUSSY VIENNA 380
RUEATRS/US TREAS WASHDC
BT
C O N F I D E N T I A L SECTION 2 OF 4 KUWAIT 6421

P-2 17482

POLICY IT MIGHT HAVE TO REVIEW ITS OIL PRODUCTION POLICY. KUWANZ COULD NOT INTERFERE IN WHATEVER INTERPRETATION THE UNITED STATES GOVERNMENT FINALLY MADE, BUT IT WOULD NOT BE JUST FOR SUCH AN INTERPRETATION TO BE APPLIED RETROACTIVELY. FURTHERMORE, KUWAIT WOULD HAVE TO BE GIVEN TIME HV CHANGE ITS INVESTMENT STRATEGIES ACCORJINGLY. UNFORTUNATELY, THIS MIGHT LEAD TO A SITUATION OF RETALIATION, SOMETHING WHICH KAYAIT WISHED TO AVOID.

6. OIL PRICES. ATEEQI, WHO WAS ALSO ACTING OIL MINISTER, SAID THAT, IN REACHING AN OIL PRICE DECISION, OPEC WILL LOOK FOR ONE THAT WILL NOT CAUSE A "POLITICAL MESS", SINCE KUWAIT DOES NOT WANT TO REPEAT 1973. ALTHOUGH THE OPEC ECONOMIC COMMITTEE IS CURRENTLY REVIEWING THE OIL PRICE QUESTION IN ORDER TO MAKE A RECOMMENDATION, LUCKILY THE DECISION WILL NOT BE LEFTTZO THESE EXPERTS, BUT WILL BE THE CONCERN OF MINISTERS. KUWAIT WILL NOT RECOMMEND A PRICE DESIGNED TO RECOVER ALL ITS LOSSES DUE TO THE DOLLAR DECLINE AND INFLATION, BUT IS LETTING OTHERS KNOW IT IS INTERESTED IN A PRICE "CORRECTION". SUCH AN INCREASE WILLVE NECESSARY BECAUSE THE GOVERNMENT NEEDS TO MEET ITS REQUIREMENTS IN TERMS OF SALARY RAISES FOR CIVIL SERVANTS AND ALSO WITH RESPECT TO FOREIGN AID, WHICH, IT MUST BE RENALLED, IS GIVEN AT THE GENEROUS RATE OF MORE THAN 7 PERCENT OF ITS GNP. OPEC SHOULD NOT BXSFORCED TO ACCEPT AN OIL PRICE FREEZE. SINCE THE REAL PRICE OF OIL HAS BEEN CUT DRASTICALLY BECAUSE OF INFLATION AND THE DECLINE OF THE DOLLAR, THERE SHOULD BE A CORRECTION, BUT ONE IN WHICH WISDOM HAS TO RULE. AS MATTERS NOW STAND, GERMANY AND JAPAN ARE THE ONLY ONES WHO ARE BENEFITING FROM THE LOW "REAL" PRICE OF OIL.

7. SECRETARY BLUMENTHAL SAID THAT HE WOULD FIRST ADDRESS THE TAX SECTION 892) ISSUE, BUT ONLY BRIEFLY, SINCE THE AMPD'S FINANCIAL ADVISOR (KHALED ABU SA'UD) HAD ALREADY HAD AN OPPORTUNITY TO DISCUSS THE MATTER INFORMALLY WITH DEPUTY ASSISTANT SECRETARY FOR TAX ANALYSIS SUNLEY. SECRETARY BLUMENTHAL NOTED THAT THERE WILL BE PUBLIC HEARINGS (ON SECTION 892) AND SAID "I WIL PERSONALLY SEE TO IT THAT WE COME OUT WITH A RESULT THAT IS AS POSITIVE AS PMSSIBLE." HOWEVER, GOK SHOULD BE AWARE THAT THE QUESTION OF INTERPRETATION OF 892 HAD BEEN AROUND FOR A LONG TIME. FOR EXAMPLXVN BANK OF AMERICA HAS ASKED FOR PRELIMINARY RULING IN 1976 BUT HAD WITHDRAWN THIS REQUEST AFTER BEING TOLD THAT THE RULING MIGHT BE A NEGATIVE ONE. QUESTION OF DIFFERENTIATION BETWEENHBZPASSIVE" AND "COMMERCIAL" INVESTMENT

P-4 17482

INCOME WAS ALSO NOT A NEW ISSUE HAVING BEEN AROUND EVER SINCE THE '50'S. MOREOVER, THERE WAS AN INTEREST IN CONGRESS VF ASSURING THAT THE TAX LAW IN SUCH SITUATIONS WAS FAIR AND EQUITABLE TO ALL CONCERNED--FOREIGN GOVERNMENTS AND DOMESTIC U.S. TAXPAYERS.

8. SECRETARY BLUMENTHAL THEN EMPHASIZED THAT HE WANTED TO BE SURE THAT THE RECORD WOULD INDICATE THAT THERE IS ABSOLUTELY NO CONSIDERATION BEING GIVEN TO ANY CHANGE IN THE TAX EXEMPT STATUS OF DIVIDEND, INTEREST OR ROYALTY INCOME OF FOREIGN GOVERNMENTS. THE ONLY MATTER AT ISSUE WAS TAXABIPUTY OF FOREIGN GOVERNMENT REAL ESTATE INVESTMENT INCOME AND THIS WOULD HAVE TO BE LOOKED AT VERY CLOSELY. WHATEVER DECISION REACHED WOULD BE DONE SO WITH FULL NOTICE TO PARTIES CONCERNED, GIVING THEM SUFFICIENT TIME TO PROTECT THEIR INTERESTS. FOR EXAMPLE, IN THE CASE OF SAUDIA ARABIA, THERE WAS A ONE YEAR GRACE PERIOD BEFORE NEW TAX RULINGS WENT INTO EFFECT AND THESE WERE NOT RETROACTIVE. SECRETARY ADDED THAT WHILE HE COULD NOT MAKE ANY COMMITMENTS AT THIS TIME, HE HOPED THAT THE QUESTION OF A GRACE PERIOD AND THE PROBLEM OF RETROACTIVTY WOULD BE NOT CAREFULLY CONSIDERED BEFORE ANY FINAL DECISION WAS MADE.
BT
#6421

RUQMTI/AMEMBASSY TRIPOLI 1194
RUFHAU/AMEMBASSY VIENNA 381
RUEATRS/US TREAS WASHDC
BT
C O N F I D E N T I A L SECTION 3 OF 4 KUWAIT 6421

9. IN RESPONSE TO ATEEQI'S FURTHER QUERY, SECRETARY BLUMENTHAL REPLIED THAT USG WOULD TRY TO MAKE THE GOK TAX STATUS AS CLEAR AS POSSIBLE. HE NOTED THAT, UNDER U.S. SYSTEM OF THREE BRANCHES OF GOVERNMENT, THE COURTS OFTEN HAVE THE FINAL SAY ON TAX QUESTIONS. THE GOVERNMENT OF KUWAIT, JUST LIKE U.S. CITIZENS, HAS THE RIGHT TO USE U.S. COURTS. ATEEQI REPLIED THAT HE DID NOT WANT TO CHALLENGE THE MATTER IN THE COURTS.

10. OIL PRICES. AS FOR OIL PRICES, SECRETARY BLUMENTHAL SAID HE WAS GLAD TO HEAR THAT THE MINISTER DID NOT FOLLOW THE ADVICE OF EXPERTS, FOR REPORTS FROM VIENNA OF THE OPEC COMMITTEE'S DELIBERATIONS ON PRICE WERE FRIGHTENING. AS FOR AID, U.S. APPRECIATED KUWAIT'S GENEROSITY, WHICH WAS A WISE POLICY FOR A RICH COUNTRY AND ONE WHICH U.S. HAD FOLLOWED SINCE WORLD WAR II, EVEN IN TIMES OF ECONOMIC DIFFICULTY. HOWEVER, IT MADE NO SENSE TO GIVE WITH ONE HAND AND TAKE WITH THE OTHER, FOR EXAMPLE BY RAISING THE PRICE OF OIL. AS FOR OIL PRICING DECISIONS, US KNEW THAT IN 1977 THERE WERE MANY FACTORS AFFECTING THEM: SLOW GROWTH IN THE WORLD ECONOMY WAS ONE; SOFT WORLD DEMAND/SUPPLY SITUATION FOR OIL WAS ANOTHER. IN

REACHING PRICE DECISION, SECRETARY WAS SURE KUWAIT WOULD LOOK AT THE DEMAND/SUPPLY SITUATION FOR OIL IN 1979. EXPERTS IN U.S. FEEL THAT FOR 1979 AND INTO 1980, THE MARKET WILL NOT BE AS SOFT AS IT WAS IN 1973, BUT NOT AS TIGHT AS IT WAS IN 197YXQOUUM EVEN THOUGH KUWAIT CONTINUES TO FOLLOW ITS 2 MILLION B/D CONSERVATION CEILING POLICY, THE WORLD DEMAND/SUPPLY SITUATION FOR OIL, NOT JUST U.S. POLICY, WOULD HAVE SOME EFFECT ON OIL PRICING. WHILE IT PWAS TRUE THAT A CONTINUED OIL PRICE FREEZE HELPED WEST GERMANY AND JAPAN VIS-A-VIS THE U.S., IF THE PRICE OF OIL WERE RAISED, THE DOLLAR WOULD WEAKEN AGAIN AND THIS WOULD SIMPLY PERPETUATE THEIR ADVANTAGE IN THIS RESPECT. COMMENTING ON THE KUWAITI BUDGETARY NEED FOR AN OIL PRICE INCREASE, SECRETARY BLUMENTHAL NOTED THAT KUWAIT ENJOYS

A LARGE CURRENT ACCOUNT SURPLUS AND SHOULD HAVE NO PROBLEM RAISING CIVIL SERVANTS' SALARIES.

10. CONCLUDING HIS COMMENTS ON OIL PRICES, MINISTER ATEEQI OBSERVED THAT OPEC IS, IN FACT, A USEFUL ORGANIZATION. DIALOGUE WITH OPEC MEMBERS IS ALWAYS WORTHWHILE, EVEN IF THERE WAS ONLY AGREEMENT ON 50 TO 60 PERCENT OF THE MATTERS INVOLVED.

12. EFFECT OF AN OIL PRICE RISE ON THE UNITED STATES. IN ELOQUENT PRESENTATION, CONGRESSMAN CAVANAUGH NOTED THAT MUCH HAD BEEN SAID ABOUT THE EFFECTS OF AN OIL PRICE RISE ON THE WORLD ECONOMY. SOMETHING NOW NEEDED TO BE SAID ABOUT ITS EFFECT ON THE AVERAGE U.S. CITIZEN. MINISTER DID NOT SEEM TO RELATE OIL PRICES TO THE WAGE FACTOR TO THE UNITED STATES. THE UNITED STATES MIGHT HAVE A LARGE ECONOMY, BUT FACT REMAINED THAT FOR THE UNITED STATES, EACH OIL PRICE RISE WOULD HAVE A MAJOR EFFECT BECAUSE ALL THE LARGE INDUSTRIES AND LABOR UNIONS WOULD REACT TO IT BY RAISING WAGES AND PRICES. ANY OIL PRICE RISE WOULD BE LIKELY TO HAVE A TREMENDOUS PSYCHOLOGICAL IMPACT, AND THIS WOULD COME JUST AT A TIME WHEN PRESIDENT CARTER HAS WITH GREAT COURAGE TAKEN STEPS TO CURB INFLATION BY VETOING PUBLIC WORKS BILLS AND IN SOME CASES THE ACTIONS OF HIS OWN PARTY. THE GREAT PSYCHOLOGICAL MOMENTUM AGAINST INFLATION THAT PRESIDENT CARTER HAD CREATED WOULD BE GREATLY IMPERILED BY ANY ADVERSE OIL PRICE DECISION MADE BY OPEC. IMPACT OF ANY OIL PRICE DECISION BY THE MEMBERS OF OPEC SUCH AS KUWAIT WOULD BE VERY DRAMATIC ON THE UNITED STATES ECONOMY. ALSO, THE MINISTRY SHOULD CONSIDER THE POLITAL IMPACT ANY OIL PRICE DECISION WOULD HAVE ON PRESIDENT CARTER HIMSELF, AT A TIME WHEN HE HAD TAKEN SOME POLITICAL RISK
BT
6421

RUFNFS/AMEMBASSY PARIS 2029
RUFHRO/AMEMBASSY ROME 476
RUQMHR/AMEMBASSY TEHRAN 4598
RUDKGPQ/AMEMBASSY THE HAGUE 130
RUQMTI/AMEMBASSY TRIPOLI 1195
RUFHAU/AMEMBASSY VIENNA 382
RUEATRS/US TREAS WASHDC
BT
C O N F I D E N T I A L SECTION 4 OF 4 KUWAIT 6421

IN ATTEMPTING TO MOVE TOWARDS A MORE BALANCED POSITION REGARDING MIDDLE EAST POLICY. THE AMERICAN PEOPLE WOULD NOT SEPARATE OPEC OIL PRICE POLICY FROM U.S. POLICY REGARDING THE MIDDLE EAST. CONGRESSMAN SAID THAT HE WAS CONCERNED THAT PERHAPS THE MINISTER'S PERCEPTION WAS NOT AS DEEP AS HE WOULD HOPE IT MIGHT BE REGARDING THE EFFECT OF OIL PRICE RISE, NO ONLY ON THE INTERNATIONAL SITUATION BUT ON THE U.S. DOMESTIC, ECONOMIC AND POLITICAL SITUATION.

13. ATEEQI REPLIED THAT FROM THE KUWAITI POINT OF VIEW, THE SITUATION OF THE PRESIDENT OF THE UNITED STATES WAS A VALID CONCERN IN THE UNITED STATES BUT NOT IN KUWAIT. WHAT CONCERNED KUWAIT WAS ITS OWN INTEREST. SITUATION OF THE TWO COUNTRIES WAS SIMPLY ENTIRELY DIFFERENT. UNITED STATES WAS FLYING TO THE MOON WHILE KUWAIT WAS STRUGGLING TO GROW GRASS. IT WAS NICE TO TALK ABOUT NORTH/SOUTH DIALOGUE, AND FOR THAT MATTER, THE EURO/ARAB DIALOGUE, BUT THIS WAS REALLY ALL NONSENSE. THE MINISTER EXPRESSED THE WISH WE COULD ALL SPEAK AS CITIZENS OF ONE COUNTRY, BUT "YOU IN THE UNITED STATES SPEAK OF NEUTRON WEAPONS WHILE WE SPEAK HERE OF GRASS".

14. ON THIS NOTE OF LEVITY, SECRETARY BLUMENTHAL CONCLUDED MEETING BY SAYING THAT, HOWEVER SHORT, HIS TIME IN KUWAIT HAD BEEN WELL SPENT. HE ASKED THAT MINISTER ATEEQI COME TO THE UNITED STATES AND SPEND AT LEAST AN EQUAL AMOUNT OF TIME AS HIS GUEST. END TEXT.

/MAESTRONE

BT
6421

AmEmbassy TEHRAN

ACTION: ECMS INCOMING TELEGRAM CONTROL NO. 317

CONFIDENTIAL

JAN 19 1978

INFO:
AMB 1
DCM 1
SA
POL 2
ECON
PM 1
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CONS
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ADM
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ISFA
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R 081207Z JAN 78
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 9861
INFO RUQMDH/AMCONSUL DHAHRAN 3611
RUQMRA/AMEMBASSY JIDDA 5216
RUQMHR/AMEMBASSY TEHRAN 4108
BT
C O N F I D E N T I A L KUWAIT 0103

ACTION COPY

FSE 2-3

E.O. 11652: XGDS-1
TAGS: ENRG
SUBJECT: KUWAIT OIL MINISTER ON AMINOIL NATIONALIZATION AND SAUDI/KUWAITI PARTITIONED ZONE DISCUSSTION

REF: (A) 77 KUWAIT 7253 (NOTAL), (B) 77 KUWAIT 7185 (NOTAL)

1. KUWAIT DAILY (AS-SIYASSA) JAN 5TH CARRIED GARBLED STORY WHICH INCLUDES PREDICTION THAT ANY ATTEMPT BY THE AMERICAN INDEPENDENT OIL COMPANY (AMINOIL) TO TAKE ITS CASE TO INTERNATIONAL ARBITRATION (THE STORY MISTAKENLY REFERS TO WORLD COURT) "WILL BE A FAILURE". DURING CALL BY AMBASSADOR ON OIL MINISTER AL-KAZIMI AND MINISTRY UNDERSECRETARY AL-ADASANI JAN 7TH (SEE SEPTEL) LATTER EXPRESSED OPINION THAT ARBITRATION WHICH AMINOIL REQUESTED DEC. 21 (REF B) COULD NOT BE APPLIED SINCE THE COMPANY ALREADY HAD BEEN TAKEN OVER. REQUEST FOR ARBITRATION AFTER NATIONALIZATION WAS TANTAMOUNT TO QUESTIONING THE SOVEREIGNTY OF THE STATE OF KUWAIT, ADASANI SAID. MINISTER CONFINED HIMSELF MERELY NOTING THAT AMINOIL REQUEST FOR ARBITRATION HAD BEEN TURNED OVER TO OFFICE OF MINISTER OF STATE FOR ADMINISTRATIVE AND LEGAL AFFAIRS FOR ITS COMMENT. AMBASSADOR OBSERVED THAT ADASANI'S VIEW, WHILE INTERESTING, MIGHT BE SEEN DIFFERENTLY BY LAWYERS.

2. AMBASSADOR THEN ASKED IF THERE WERE ANY TRUTH TO STORY CONCERNING LIKELIHOOD OF AMALGAMATION OF KUWAIT-WAFRA OIL COMPANY (KWOC), THE GOVERNMENTANAMED SUCCESSOR ENTITY TO AMINOIL, WITH KUWAIT'S MAJOR OIL PRODUCER, THE GOVERNMENT-OWNED KUWAIT OIL COMPANY. MINISTER STATED HE WAS PERSONNALY AGAINST KOC'S TAKING OVER KWOC FOR TWO REASONS: (1) SINCE KWOC WAS THE SUCCESSOR TO AMINOIL AND THE GOVERNMENT HAD NOT SETTLED MATTERS WITH AMINOIL, IT WOULD COMPLICATE MATTERS FOR KWOC TO BE MERGED WITH ANOTHER ENTITY; AND (2) POLITICALLY, IT WAS NOT A GOOD IDEA TO HAVE GOVERNMENT COMPANY (OC) EXPLOITING THE PARTITIONED ZONE JOINTLY WITH GETTY, A SAUDI CONCESSIONAIRE.

CONFIDENTIAL

3. ON THE LONG STADING PROBLEM OF DEMARCATING THE SAUDI/KUWAITI BOUNDARY OFF THE OFFSHORE PROTION OF THE NEUTRAL ZONE, DISCUSSIONS WERE "FROZEN LIKE OIL PRICES" THE MINISTER SAID. HOWEVER, HE EXPRESSED THE HOPE THAT THE TWO SIDES WOULD WOULD MEET IN ABOUT A MONTH TO DISCUSS THE MATTER. UNDERSECRETARY ADASANI NOTED THAT IT WOULD BE MUCH BETTER IF THE SAUDIS AND KUWAITIS HAD RESOLVED THEIR OFF-SHORE BOUNDARY SO AS TO HAVE A "COMMON FRONT" IN ANY MEDIAN LINE DISCUSSIONS WITH THE IRANIANS. KUWAIT, KAZIMI ALSO ADMITTED, WOULD VERY MUCH LIKE TO RESOLVE THE BOUNDARY QUESTION SO AS TO BE ABLE TO EXPLOIT THE LARGE GAS DEPOSITS IN THE OFFSHORE DORRA FIELD IN THE NON-PARTIONED PART OF THE NEUTRAL ZONE. AS ANOTHER REASON FOR KOC'S NOT TAKING OVER KWOC, UNDERSECRETARY ADASANI STATED THAT OIL MINISTRY STUDIES REVEALED THERE WOULD BE VERY LITTLE SAVING INVOLVED.

4. COMMENT. ONE REASON NEITHER KUWAITI OFFICIAL MENTIONED, BUT WHICH IS GIVEN WIDE CREDENCE HERE, IS FACT THAT MINISTER, WHO DOES NOT EXERCISE EFFECTIVE CONTROL OVER GOVERNMENT-OWNED OIL/PETROCHMICAL COMPANIES (KOC, KUWAIT NATIONAL PETROLEUM CO. AND PETROCHMICAL INDUSTRIES CO.) WOULD LIEK TO HAVE HIS "OWN" OIL COMPANY. MOREOVER, KAZIMI HAS APPOINTED HIS NEPHEW, FUAD AL-MATROUK, AS KWOC HEAD, BUT LATTER IS NOT REGARDED AS PARTICULARLY COMPETENT. ANOTHER FACTOR IS RELIGIOUS ONE, SINCE BOTH ARE SHI'A MOSLEMS AND NEW KWOC SENIOR STAFF INCLUDES HIGH PROPORTION OF SHI'AS.

MAESTRONE

CONFIDENTIAL

NNNNVV ESA59 KWAZ94 CONFIDENTIAL
RR RUQMHR
DE RUCMKW #0462 0271450
ZNY CCCCC ZZH
271426Z JAN 79
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 2858
INFO RUQMBI/AMEMBASSY ABU DHABI 4405
ZEN/USINT BAGHDAD POUCH
RUQMOD/AMEMBASSY DOHA 2309
RUQMRA/AMEMBASSY JIDDA 5999
RUQMMT/AMEMBASSY MUSCAT 1773
RUQMAM/AMEMBASSY MANAMA 3692
RUFNPS/AMEMBASSY PARIS 2077
RUQMHR/AMEMBASSY TEHRAN 4677

RUEHIA/USICA WASHDC
BT

C O N F I D E N T I A L KUWAIT 0462

E.D. 12065: GDS 1/27/85 (CLUNAN, JAMES L.) OR-P
TAGS: PEPR, PBOR, ZP, KU, IR
SUBJ: KUWAIT CAUTIOUS ABOUT KHOMEINI

REFS: A) KUWAIT 0101,B) STATE 17001 (NOTAL)

ACTION
POL3
INFO
AMB
DCM
OR
ICA
ADM
PM
EC2
CRU2
8J

1. (U) ACCORDING TO ARABIC PRESS NEWSPAPER JANUARY 21, KUWAIT MINISTRY OF FOREIGN AFFAIRS SPOKESMAN AHMAD AL-MUBARAKI HAS DECLINED TO COMMENT DIRECTLY ON ANNOUNCEMENT ATTRIBUTED TO AN AIDE OF AYATOLLAH KHOMEINI THAT THE GULF IS NEITHER "ARAB" NOR "PERSIAN" BUT "ISLAMIC." INSTEAD MUBARAKI REITERATED STANDARD PUBLIC POSITION OF KUAIT ON RESIONAL SECURITY. HE SAID "THE ESSENTIAL POINT FOR KUWAIT IS COOPERATION AMONG ALL THE STATES OF THE GULF WHICH ENSURES THE CONTINUED STABILITY AND PROSPERITY OF THE REGION AND KEEPS IT AWAY FROM GREAT POWER CONFLICTS."

2. (U) ON JANUARY 23 THE ARABIC NEWSPAPER AL-WATAN, IN A REPORT FROM ITS PARIS CORRESPONDENT, SAID THAT KHOMEINI HAD MET IN PARIS ON JANUARY 22 WITH A DELEGATION REPRESENTING THE SHI'ITE RELIGIOUS LEADERS IN THE GULF WHO TRANSMITTED TO KHOMEINI THE ANXIETY FELT BY THE STATES OF THE GULF THAT HIS POLITICAL ACTIVITIES "MIGHT LEAD EITHER TO THE INFILTRATION OF COMMUNISTS TO THE GULF AREA OR ENCOURAGE REBELLION IN THOSE STATES."

3. (C) COMMENT: AL-WATAN STORY REFLECTS ANXIETY WE HAVE HEARD EXPRESSED PRIVATELY IN KUWAIT ABOUT THE ADVENT OF A KHOMEINI GOVERNMENT IN IRAN. WE HAVE REPORTED THAT THE AMIR SPOKE WITH

CONCERN ABOUT THE SPREAD OF SHI'ITE TROUBLEES TO IRAQ, AND PERHAPS BEYOND, IN HIS CONVERSATION WITH FRENCH FOREIGN MINISTER FRANCOIS-PONCET (REF A). IN THE SAME VEIN, AN OFFICIAL IN THE POLITICAL DEPARTMENT OF THE FOREIGN MINISTER TOLD US THAT HE DID NOT EXPECT A GOVERNMENT RUN BY A RELIGIOUS MAN SUCH AS KHOMEINI COULD LAST VERY LONG. THIS SUNNI MUSLIM SAID HE THOUGHT AN ATTEMPT TO ESTABLISH AN ISLAMIC STATE UNDER SHI'ITE LEADERSHIP WOULD ONLY PRODUCE CHAOS IN IRAN AND ATTENDANT TROUBLES IN THE SHI'ITE COMMUNITY IN IRAQ. DESPITE THESE CONCERNS KUWAIT HAS NOT GONE ON THE RECORD EITHER FOR OR AGAINST ANY PURPORTED KHOMEINI PRONOUNCEMENT, EVEN ON THE RELATIVELY PERIPHERAL ISSUE OF GEOGRAPHIC TERMINOLOGY. DEPARTMENT WILL RECALL OCCASIONS WHEN DISPUTE OVER THE NAME OF THE GULF BROUGHT STRONG KUWAITI ASSERTION THAT GULF AS, IS, AND SHALL BE FOREVER, ARABIAN. THE KUWAIT POST OFFICE REFUSED MAIL WHICH INCLUDED "PERSIAN GULF" IN THE ADDRESS AND FLIGHT CLEARANCE REQUESTS WERE REJECTED ON THE SAME GROUNDS. AL-MUBARAKI'S CAUTIOUS COMMENTS AVOID REVIVING THIS TERMINOLOGICAL DISPUTE. THIS CAUTION IS ALL THE MORE EVIDENT WHEN ONE REGALLS THAT KUWAIT TURNED DOWN KHOMEINI'S REQUEST TO COME HERE AFTER IRAQ EXPELLED HIM IN OCTOBER.

MAESTRONE

BT
#0462

CONFIDENTIAL

ACTION

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22 Jan 79 11 27Z

FSE 2-02

VV ESA052KWA031
OO RUQMHR
DE RUQMKW 0370/1 0221140
ZNY CCCCC ZZH
O R 221027Z JAN 79
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2016
INFO RUQMBI/AMEMBASSY ABU DHABI 4393
RUFRRS/AMEMBASSY ALGIERS 906
ZEN/USINT BAGHDAD POUCH
RUFMBS/AMEMBASSY BRUSSELSYUY
RUEJRS/AMEMBASSY CARACAS 413
RUQMDH/AMCONSUL DHAHRAN 3679
RUQMOD/AMEMBASSY DOHA 2299
RUKOBT/AMEMBASSY JAKARTA 350
RUQMRA/AMEMBASSY JIDDA 5981
RUAGL/AMEMBASSY LAGOS 367
RUFHLC/AMEMBASSY LIBREVILLE 224
RUQTC/AMEMBASSY LONDON 3287
RUQMAM/AMEMBASSY MANAMA 3683
RUQMMT/AMEMBASSY MUSCAT 1765
RUFNPS/AMEMBASSY PARIS 2071
RUESQI/AMEMBASSY QUITO 218
RUQMHR/AMEMBASSY TEHRAN 4663 ✓
RUQTKO/AMEMBASSY TOKYO 565
RUQMTI/AMEMBASSY TRIPOLI 1212
RUFHAU/AMEMBASSY VIENNA 396
BT
C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 0370

LIMDIS

BRUSSELS FOR USEEC

PARIS ALSO FOR OECD

E.O. 12065: GDS 1/22/85 (MAESTRONE, FRANK E.) OR-M
TAGS: ENRG, OPEC, KU
SUBJ: KUWAIT OFFERS SLIGHT INCREASE IN CRUDE PRODUCTION TO MAKE UP IRANIAN OIL SHORTFALL

1. (C - ENTIRE TEXT)

ACTION

INFO
AMB

DCM
POL-2
PM
OR
CRU-E
SHIR
TSF

6/4A

2. SUMMARY: KUWAIT OIL MINISTER REVEALED TO ME CONFIDENTIALLY JAN 28 THAT GOK WOULD AUTHORIZE ADDITIONAL CRUDE OIL PRODUCTION AVERAGING SLIGHTLY OVER 200,000 BPD IN ORDER TO CONTRIBUTE TO OFFSETTING THE LOSS OF IRANIAN OIL. ACCORDING TO OIL COMPANY REPRESENTATIVES, A REQUIREMENT THAT THIS ADDITIONAL OIL BE TRANSPORTED IN KUWAITI TANKERS WAS INCLUDED AMONG OTHER CONDITIONS. BULK OF THIS ADDITIONAL CRUDE IS OFFERED TO THE MAJOR OFF-TAKERS OF KUWAII OIL, BP, SHELL AND GULF. WHILE THE FIRST TWO PROBABLY WILL HAVE NO TROUBLE MEETING CONDITIONS, THEY DO CAUSE SOME DIFFICULTIES FOR GULF, WHICH HAS NOT YE DECIDED TO PURCHASE THIS ADDITIONAL AMOUN. THE OIL MINISTER, WHEN PROVIDING THIS INFORMATION WITH REQUEST I RESPECT ITS CONFIDENTIALITY, ASSURED ME THAT THIS ACTION WAS BEING TAKEN FOR "POLITICAL REASONS" AND THAT, OTHERWISE, HE OOK POLICY OF RESTRICTING ITS CRUDE PRODUCTION O 2 MILLION BPD AVERAGE WILL REMAINS. END SUMMARY

3. AT A RECEPTION GIVEN BY BRITISH PETROLEUM (BP) CHAIRMAN SIR DAVID STEEL JAN 28, OIL MINISTER ALI KHALIFA AL-SABAH REVEALED TO ME "VERY CONFIDENTIALLY" HAT KUWAIT WOULD INCREASE ITS CRUDE OIL PRODUCTION BY SLIGHTLY OVER 200,000 BPD IN ORDER TO MAKE A CONTRIBUTION TO THE WORLD SHORTAGE WHICH RESULTS FROM STOPPAGE OF IRANIAN OIL PRODUCTION. THE MINISTER ASKED THAT THIS INFORMATION BE HELD VERY CLOSELY SINCE NO REPORT OF HIS PRODUCTION INCREASE WILL BE GIVEN O THE PRESS. (I REQUEST THAT HIS WISHES BE RESPECTED UNTIL THIS INFORMATION EVENTUALLY IS REVEALED BY OTHER SOURCES.) ALI KHALIFA INDICATED THAT THE PRODUCTION HAD BEEN APPROVED BY THE SUPREME OIL COUNCIL ON JAN 28 AND THAT IT WOULD BE FORMALLY ENDORSED BY THE CABINET AT ITS JAN 21 MEETING, WHICH I WAS.

4. THIS ACTION REPRESENTS A REVERSAL OF AN EARLIER REFUSAL BY THE CABINET TO APPROVE A PROPOSAL BY THE OIL MINISTRY WHICH WOULD HAVE PERMITTED THE THREE MAJOR PURCHASES OF KUWAITI CRUDE, I.E. BP, GULF AND SHELL, O PURCHASE 50,000 BPD EACH FOR HE FIRST, SECOND, AND FOURH QUARTERS OF 1979 AND 100,000 BPD EACH DURING THE THIRD QUARER. THE OIL MINISTRY'S REASON FOR RECOMMENDING THE HIGHER AMOUNT FOR THE THIRD QUARTER WAS BASED ON A DESIRE TO OBTAIN ENOUGHT ASSOCIATED GAS O RUN THEIR NEW LPG PLANT AT FULL CAPACITY UNDER THE MOST SEVERE CLIMAIC CONDITIONS AS A FINAL TES BEFORE ITS ACCEPTANCE FROM THE CONSTRUCTORS.

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NHNNVV ESA431WA563 22 JAN 79 2
RUQMHR
RUQMKW 0370/2 0221120
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R 2216272 JAN 79
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2317
INFO RUQMSI/AMEMBASSY ABU DHABI 4394
RUFHRS/AMEMBASSY ALGIERS 907
RUEN/USINT BAGHDAD POUCH
RUFHBS/AMEMBASSY BRUSSELS 677
RUESRS/AMEMBASSY CARACAS 414
RUQMDH/AMCONSUL DHAHRAN 3880
RUQMOD/AMEMBASSY DOHA 2300
RUKOBT/AMEMBASSY JAKARTA 351
RUQMRA/AMEMBASSY JIDDA 5982
RUIAQL/AMEMBASSY LAGOS 363
RUFHLC/AMEMBASSY LIBREVILLE 225
RUDTC/AMEMBASSY LONDON 3288
RUQMAM/AMEMBASSY MANAMA 3654
RUQMMT/AMEMBASSY MUSCAT 1766
RUFNPS/AMEMBASSY PARIS 2872
RUESQI/AMEMBASSY QUITO 219
RUQMHR/AMEMBASSY TEHRAN 4669
RUEHKO/AMEMBASSY TOKYO 566
RUQMTI/AMEMBASSY TRIPOLI 1213
RUFHAU/AMEMBASSY VIENNA 397
BT
C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 0370

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5. AFTER THE REJECTION OF THIS PROPOSAL, ALI KHALIFA CAME BACK WITH THE PRESENT PROPOSAL WHICH PERMITS EACH OF THE THREE MAJOR LIFTERS TO TAKE 40,000 BPD EACH FOR THE FIRST, SECOND AND FOURTH QUARTERS AND 80,000 BPD EACH FOR THE THIRD QUARTER. THIS REPRESENTS AN OVERALL 20 PERCENT REDUCTION FROM THE PREVIOUS PROPOSAL. THE REMAINING PRODUCTION, WHICH WOULD BRING THE TOTAL TO SLIGHTLY OVER 200,000 BPD, WILL BE ASSIGNED TO SMALL COMPANIES WHICH HAVE REGULAR CONTRACTS TO PURCHASE KUWAITI CRUDE.

6. CERTAIN CONDITIONS HAVE BEEN ATTACHED TO THIS OFFER FOR THE MAJOR OFF-TAKERS. FIRST, THEY MUST RANSPORT THIS ADDITIONAL OIL IN KUWAIT OIL TANKER COMPANY (KOTC) VESSELS AND, SECOND, EACH OF THE THREE COMPANIES IS REQUIRED TO TAKE ITS SHARE OF ONE MILLION BARRELS OF EXTRA HEAVY CRUDE PRODUCED IN THE NEUTRAL ZONE WHICH IS PRESENTLY HELD IN STORAGE BECAUSE IT IS DIFFICULT TO SELL. MOREOVER, THE THREE COMPANIES, WHICH ENJOY DISCOUNTS UNDER THEIR REGULAR CONTRACTS, WILL HAVE TO PAY THE OFFICIAL PRICE FOR THIS ADDITIONAL OIL. NORMAL CREDIT TERMS, I.E. 60 DAYS, WILL APPLY. BOTH BP AND SHELL, WHICH HAVE SUFFERED THE GREATEST LOSSES AS A RESULT OF THE CUTOFF OF IRANIAN OIL PRODUCTION, APPARENTLY WILL HAVE NO PROBLEM WITH THESE TERMS AND ARE EXPECTED TO SIGN CONTRACTS FOR THIS ADDITIONAL QUANTITY.

7. AN ADDITIONAL CONDITION HAS BEEN APPLIED BY THE MINISTRY TO THE OFFER TO GULF FOR THIS ADDITIONAL OIL PURCHASE. THE OIL MINISTRY IS DEMANDING THAT GULF SIGN A 10-YEAR AGREEMENT TO PURCHASE 200,000 TONS OF LPG. THIS CONDITION WAS ADDED BECAUSE GULF CANCELED A CONTRACT LATE IN DECEMBER TO PURCHASE THIS AMOUNT OF LPG WHEN ITS INTENDED JAPANESE CUSTOMER, MITSUBISHI, SUDDENLY WITHDREW FROM AN AGREEMENT TO PURCHASE THIS AMOUNT OF LPG. GULF HAD PREVIOUSLY PURCHASED 10,000 TONS OF LPG ANNUALLY FOR THIS CUSTOMER AND HAD INCREASED THE AMOUNT TO 200,000 TONS IN ANTICIPATION OF AN INCREASED REQUIREMENT. HOWEVER, ACCORDING TO THE GULF REGIONAL REPRESENTATIVE IN KUWAIT THE LPG MARKET IN JAPAN IS PRACTICALLY SATURATED AS A RESULT OF THE AVAILABILITY OF PRICE-COMPETITIVE ALTERNATE FUELS FULLY ENABLING USERS TO SHIFT TO OTHER SOURCES OF ENERGY.

8. GQF ALSO HAS DIFFICULTY WITH THE CONDITION REQUIRING TRANSPORT IN KOTC TANKERS BECAUSE, AS A RESULT OF THE DAMAGE TO GANTRY BAY FACILITIES IN IRELAND, IT HAS A SURPLUS OF TANKER CAPACITY. SINCE THE MINISTRY OF OIL CONTRACT REQUIRES THAT THE PURCHASERS NEGOTIATE THE TANKER CHARGES WITH KOTC, GULF IS CONCERNED THAT IT MIGHT FIND ITSELF IN A POSITION OF MARKETING THIS ADDITIONAL CRUDE AT A LOSS. ACCORDING TO ITS REPRESENTATIVE, GULF IS CURRENTLY CAREFULLY REVIEWING THIS OFFER.

9. WHEN PROVIDING THIS INFORMATION TO ME, THE OIL MINISTER DECLARED THAT THIS DECISION WAS BEING TAKEN BY THE GOK FOR "POLITICAL REASONS," NAMELY TO MAKE A CONTRIBUTION TO THE ADDITIONAL SUPPLIES OF OIL THAT WILL BE NEEDED TO MAKE UP THE LOSS OF IRANIAN OIL PRODUCTION. HE ASSERTED THAT, OTHERWISE, THE KUWAITI POLICY TO MAINTAIN A STRICT CEILING ON ITS CRUDE PRODUCTION AT 2 MILLION BPD AVERAGE WAS UNCHANGED.

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FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2829
INFO RUQMBI/AMEMBASSY ABU DHABI 4396
RUFHRS/AMEMBASSY ALGIERS 908
ZEN/USINT BAGHDAD
RUFHBS/AMEMBASSY BRUSSELS 678
RUESRS/AMEMBASSY CARACAS 415
RUQMDH/AMCONSUL DHAHRAN 3881
RUQMOD/AMEMBASSY DOHA 2302
RUKOBT/AMEMBASSY JAKARTA 0352
RUQMRA/AMEMBASSY JIDDA 5986
RUTAQL/AMEMBASSY LAGOS 369
RUFHLC/AMEMBASSY LIBREVILLE 0226
RUDTC/AMEMBASSY LONDON 3290
RUQMAM/AMEMBASSY MANAMA 3685
RUQMMT/AMEMBASSY MUSCAT 1768
RUFNPS/AMEMBASSY PARIS 2074
RUESQI/AMEMBASSY QUITO 220
RUQMHR/AMEMBASSY TEHRAN 4670
RUEHKO/AMEMBASSY TOKYO 568
RUQMTI/AMEMBASSY TRIPOLI 1214
RUFHAU/AMEMBASSY VIENNA 498
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E.O. 12065: GDS 1/24/85 (MAESTRONE, FRANK E.) OR-M
TAGS: ENRG, OPEC, KU
SUBJECT: MORE DETIALS ON INCREASED KUWAIT OIL PRODUCTION

REF: KUWAIT 370

1. (C - ENTIRE TEXT)

2. DURING A JAN 23 MEETING WITH OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH ON OTHER METTERS, THE OIL MINISTER SUPPLIED ME WITH FURTHER PRECISIONS ABOUT THE KUWAITI DECISION TO INCREASE ITS CRUDE OIL PRODUCTION LEVEL DURING 1979 BECAUSE OF

THE IRANIAN OIL PRODUCTION FUTOFF. HE STATED THAT THE COUNCIL OF MINISTERS, IN APPROVING THE PROPOSAL DESCRIBED REFTEL, HAD PLACED A CEILING OF 2,200,000 BPD ON KUWAIT'S CRUDE PRODUCTION.

3. ALI KHALIFA EXPLAINED THAT THE OFFERS TO THE THREE MAJOR

OFF-TAKERS INCLUDED CERTAIN CONDITIONS TAILORED TO EACH ONE OF THE THREE COMPANIES (BP, SHELL AND GULF), PARTICULARLY WITH REFERENCE TO THE USE OF KUWAITI OIL TANKERS. HE SAID THAT BP AND SHELL WOULD TAKE THE AMOUNTS OFFERED UNDER THE CONDITIONS PRESCRIBED, BUT IT WAS UNLIKELY THAT GULF WOULD TAKE ADVANTAGE OF THE OFFER. WHEN I PRESSED HIM ON WHETHER THE CONDITIONS INCLUDED IN THE GULF OFFER WERE BASICALLY DIFFERENT FROM THE OTHER TWO, ALI KHALIFA REPLIED, SOMEWHAT EVASIVELY, THAT THE CONDITIONS WERE RELATED TO ITS PREVIOUS PURCHASES OF BOTH OIL AND GAS, BUT WOULD ADD NO MORE DETIALS. HE MAINTAINED GULF'S DECISION WAS RELATED TO THE FACT THAT THE USE OF KUWAITI TANKERS WOULD INCREASE THEIR COSTS TO SUCH A POINT THAT IT WOULD NOT BE PROFITABLE TO MARKET THIS ADDITIONAL CRUDE UNDER THE CONDITIONS STATED.

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4. GULF REGIONAL REPRESENTATIVE CONFIRMED THIS FACT, STATING THAT GULF, BECAUSE OF TIS CURRENT OVERSUPPLY OF TANKER CAPACITY, WOULD INCUR A COST OF ADDITIONAL $1 PER BARREL BY USING KUWAITI TANKERS WHICH IT COULD NOT RECUPERATE FROM ITS CONTRACTUAL CUSTOMERS. HE NOTED THAT BP AND SHELL WOULD BE USING THE ADDITIONAL CRUDE IN THEIR OWN REFINERIES AND COULD PRESUMABLY RETRIEVE THE ADDITIONAL COST THROUGHT THE ANTICIPATED HIGHER PRODUCT PRICES.

5. ALI KHALIFA SAID THAT THE AMOUNT ORIGINALLY OFFERED TO GULF WOULD NOW BE OFFERED TO OTHER PURCHASERS OF KUWAITI OIL. IN CONCLUDING OUR DISCUSSION OF THIS MATTER, HE AGAIN REQUESTED THAT THIS INFORMATION BE HELD VERY CLOSELY WITHIN THE GOVERNMENT, INDICATING THAT THERE WOULD BE NO RELEASE OF THIS INFORMATION TO THE KUWAITI PRESS. HE MAINTAINED THAT, IF IT BECAME PUBLIC KNOWLEDGE, THE GOVERNMENT AND PARTICULARLY HE AS OIL MINISTER WOULD BE CRITICIZED FOR THIS INCREASE ABOVE THE NORMAL 2 MBPD CEILING.
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NNNNVV ESB042XWA42
RR RUQMHR
DE RUQMKW #0530/1 0301440
ZNY CCCCC ZZH
R 301328Z JAN 79
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 2884
INFO RUQMBI/AMEMBASSY ABU DHABI 4409
ZEN/USINT BAGHDAD POUCH
RUEHEG/AMEMBASSY CAIRO 2193
RUEHDM/AMEMBASSY DAMASCUS 1446
RUQMDH/AMCONSUL DHAHRAN 3887
RUQMOD/AMEMBASSY DOHA 2313
RUQMRA/AMEMBASSY JIDDA 6007
RUDTC/AMEMBASSY LONDON 3302
RUQMAM/AMEMBASSY MANAMA 3696
RUEHMO/AMEMBASSY MOSCOW 363
RUQMMT/AMEMBASSY MUSCAT 1777
RUQMNS/AMEMBASSY SANA 1212
RUEKJCS/SECDEF WASHDC
RUEHIA/USICA WASHDC
RUSNAAA/USCINCEUR
RUHQHQA
RUQMHR/AMEMBASSY TEHRAN 4676
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C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 0530

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ACTION

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E.O. 12065: GDS 1/30/85 (CLUNAN, JAMES L.) OR-P
TAGS: MPOL, SOPN, KU, ZP, IR, US, UR
SUBJ: (U) KUWAIT COMMENTS ON REGIONAL SECURITY

REFS: A) KUWAIT 0359, B) CAIRO 01843 (NOTAL), C) STATE 017001 (NOTAL)

1. (C) SUMMARY. KUWAIT PRESS HAS EXAGGERATED GULF SECURITY ASPECTS OF SECRETARY OF DEFENSE BROWN'S JANUARY 25 CONGRESSIONAL TESTIMONY. COMMENTING ON BROWN'S TESTIMONY, GOK SPOKESMAN HAS REJECTED ANY KIND OF FOREIGN INTERVENTION IN THE AFFAIRS OF THE GULF AND SAID THAT KUWAIT HAS NOT SOUGHT SECURITY GUARANTEES OR PROTECTION FROM OTHER COUNTRIES. WHILE THIS STATEMENT IS MORE CATEGORICAL THAN HIS VIEWS REPORTED IN REF A REGARDING THE ROLE OF BIG POWERS IN THE GULF, SPOKESMAN'S REMARKS MUST BE SEEN AS PART OF POLICY BALANCING ACT WHICH GOK PLAYS AMONG ITS LARGE NEIGHBORS IN THE AREA AND BETWEEN THE SUPER POWERS.

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2. (U) ON JANUARY 26 MOST KUWAITI ARABIC LANGUAGE NEWSPAPERS GAVE FRONT PAGE TREATMENT TO US SECRETARY OF DEFENSE BROWN'S JANUARY 25 TESTIMONY TO THE SENATE ARMED SERVICES COMMITTEE. TWO NEWSPAPERS (AL-ANBA AND AL-RAI-AL-AM) HEADLINED US "FEARS" OF US-SOVIET CONFRONTATION IN THE GULF. AL-NABA, AL-WATAN AND AL-QABAS SAID THE SECRETARY SPOKE OF THE "PROBABILITY" OF THIS CONFRONTATION, THUS, MAKING SAME DISTORTION AS SOME CAIRO PAPERS (REF B). WHILE ALL PAPERS SAID THE US HAS BEGUN PREPARATIONS FOR THIS "PROBABILITY", THEY ALSO MADE CLEAR THAT US "INTERVENTION" WAS CONTEMPLATED ONLY IN RESPONSE TO SOVIET MOVES.

3. (U) ON JANUARY 29 ARABIC NEWSPAPER AL-SIYASSA REPORTED COMMENTS MADE IN RESPONSE TO SECRETARY BROWN'S STATEMENT BY MINISTER OF STATE FOR CABINET AFFAIRS ABDUL AZIZ HUSSAIN, WHO SERVES AS GOK SPOKESMAN. HUSSAIN SAID THE GOK REJECTS ANY KIND OF FOREIGN INTERVENTION IN THE GULF, IRRESPECTIVE OF THE TYPE OR DEGREE OF INTERVENTION. HE NOTED THAT THE STATES OF THE GULF AND THE ARABIAN PENINSULA ARE UNITED IN OPPOSITION TO FOREIGN INTERVENTION. HE SAID THAT KUWAIT AND THE GULF STATES DO NOT INTEND TO GET INVOLVED IN THE STRUGGLE AMONG THE GREAT POWERS. AS REGARDS KUWAIT, HE SAID HIS COUNTRY DOES NOT SEEK A SECURITY GUARANTEE -- EITHER IN THE FORM OF AN EXPEDITIONARY FORCE OR OF THE INCLUSION OF KUWAIT IN A REGIONAL DEFENSE PACT -- FROM ANY OTHER STATE.

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NNNNVV ESB037KWA423
PR RUQMHR
DE RUQMKW #0530/2 0301445
ZNY CCCCC ZZH
R 301328Z JAN 79
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 2865
INFO RUQMBI/AMEMBASSY ABU DHABI 4410
ZEN/USINT BAGHDAD POUCH
RUEHEG/AMEMBASSY CAIRO 2194
RUEHDM/AMEMBASSY DAMASCUS 1447
RUQMDH/AMCONSUL DHAHRAN 3688
RUQMOD/AMEMBASSY DOHA 2314
RUQMRA/AMEMBASSY JIDDA 6008
RUDTC/AMEMBASSY LONDON 3303
RUQMAM/AMEMBASSY MANAMA 3697
RUEHMO/AMEMBASSY MOSCOW 364
RUQMMT/AMEMBASSY MUSCAT 1778
RUQMNS/AMEMBASSY SANA 1213
RUEKJCS/SECDEF WASHDC
RUFHIA/USICA WASHDC
RUSNAAA/USCINCEUR
RUHQFQA/USCINCPAC
RUQMHR/AMEMBASSY TEHRAN 4677
BT
C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 0530

4. (C) COMMENT. HUSSAIN'S COMMENTS REPRESENT THE STANDARD GOK REACTION THAT IS AUTOMATICALLY TROTTED OUT IN RESPONSE TO COMMENTS OF SENIOR AMERICAN OFFICIALS ABOUT THE US INTEREST IN THE SECURITY OF THE PERSIAN GULF. THE ACTUAL CONTENT OF ANY AMERICAN OFFICIAL'S REMARKS IN THIS RESPECT, AND ANY NUANCES IN HIS STATEMENT, ARE DISREGARDED AND KUWAITI REJECTION OF "FOREIGN INTERVENTION" IN THE GULF IS TRUMPETED LOUD AND CLEAR. BESIDES PUBLICLY REASSURING THE IRAQIS OF NO KUWAITI PREDILECTION TO RELY ON US SECURITY SUPPORT, THE GOK STATEMENT SERVES THE PURPOSE OF REPEATING FOR THE BENEFIT OF PALESTINIAN EARS KUWAIT'S ADHERENCE TO ARAB SOLIDARITY. WHILE THESE COMMENTS MAY APPEAR TO BE IN CONTRADICTION TO HUSSAIN'S REMARKS REPORTED IN REF A, IN FACT THEY ARE NOT. IN THE LATTER INSTANCE, HUSSAIN WAS NOT REACTING BUT RATHER GIVING KUWAIT'S VIEWS ON THE SECURITY SITUATION IN THE AREA IN THE LIGHT OF THE IRANIAN CRISIS. THESE WERE DEVOID OF THE POLEMICS INVOLVED IN HIS LATEST STATEMENT AND REPRESENT, WE BELIEVE, A MORE ACCURATE REFLECTION OF THE GOK POSITION. THUS, THESE TWO STATEMENTS SHOULD BE SEEN AS PART OF THE CONTINUING POLICY BALANCING ACT WHICH THE KUWAITIS SEEK TO PERFORM AMONG THEIR LARGER NEIGHBORS AND BETWEEN THE SUPER POWERS. ESTRONE
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FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC 2947
INFO RUQMBI/AMEMBASSY ABU DHABI 4429
ZEN/USINT BAGHDAD POUCH
RUDKEBQ/AMEMBASSY BERN 50
RUFHOL/AMEMBASSY BONN 491
RUQMOD/AMEMBASSY DOHA 2331
RUQMRA/AMEMBASSY JIDDA 6032
RUDTC/AMEMBASSY LONDON 3314
RUQMAM/AMEMBASSY MANAMA 3712
RUQMMT/AMEMBASSY MUSCAT 1793
RUFNPS/AMEMBASSY PARIS 2284
RUQMYA/USLO RIYADH 299
RUQMHR/AMEMBASSY TEHRAN 4687 ✓
RUDKEBQ/AMCONSUL ZURICH 007
BT
C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 0701

DEPT PASS TREASURY

E.O. 12065: GDS 2/7/85 (LUMSDEN, G. Q.) OR-3
TAGS: EFIN, KU
SUBJ: (C) INCREASED CAPITAL FLOW FROM KUWAIT REFLECTS CRISIS IN IRAN

1. (C - ENTIRE TEXT)

. SUMMARY: EMBASSY CONTACTS IN BANKING AND BUSINESS CIRCLES IN KUWAIT NOTE A MARKED INCREASE DURING RECENT WEEKS IN THE MONEY TRANSFER ACTIVITIES OF BANKS HERE. THESE INCREASED CURRENCY EXPORTS ARE SAID TO BE COMPRISED MOSTLY OF PRIVATE FUNDS DESTINED FOR DOLLAR MARKETS IN EUROPE AND IN THE US. THE INCREASE IS GENERALLY CITED AS REPRESENTING THE FLIGHT OF CAPITAL FROM NEIGHBORING IRAN TO WESTERN MONEY MARKETS THROUGH KUWAIT'S FREE AND RELATIVELY EFFICIENT BANKING SYSTE. HOWEVER, HTERE ARE INDICATIONS THAT AT LEAST PART OF THE INCREASE IS TRACEABLE TO MOVEMENTS ABROAD OF KUWAITI MONEY. THE MANAGING DIRECTOR OF ONE OF KUWAIT'S LARGEST BANKS INSISTS THAT, WHILE KUWAITI MONETARY FLOWS ARE SOMEWHAT ABOVE NORMAL AT PRESENT, THE INCREASED OUTFLOW IS NOT IMPORTANT IN ABSOLUTE TERMS. HE ADMISTS, HOWEVER, THAT A SPILLOVER OF IRAN'S PROBLEMS INTO THE ARAB SIDE OF THE GULF--PARTICULARLY TO IRAQ--COULD TRIGGER MAJOR CAPITAL FLIGHT FROM KUWAIT. (2) SUMMARY.

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3. DURING THE PAST WEEK, WE HAVE BEEN DISCUSSING WITH SOME LOCAL BANKERS AND BUSINESSMEN THE QUESTION OF MONETARY FLOWS FROM KUWAIT IN LIGHT OF THE CURRENTLY UNSETTLED CONDITIONS IN IRAN. THERE HAVE BEEN RUMORS AROUND TOWN ABOUT THE CLANDESTINE ARRIVAL OF CURRENCY AND OTHER NEGOTIABLE INSTRUMENTS FROM ACROSS THE GULF. OUR DISCUSSIONS HAVE CONFIRMED THAT, ALTHOUGH THE GENERAL TREND BEGAN AS FAR BACK AS LAST NOVEMBER, THE PAST SEVERAL WEEKS HAVE SEEN A MARKED UPTURN IN THE MONEY TRANSFER ACTIVITIES OF BANKS HERE. THE BOARD CHAIRMAN OF ONE OF THE COUNTRY'S MAJOR INVESTMENT INSTITUTIONS HAS TOLD US THAT "RIGHT NOW, LOCAL BANKS ARE SO TIED UP PROCESSING IRANIAN TRANSFER ORDERS THAT THEY DON'T HAVE TIME TO RETURN OUR PHONE CALLS."

4. MOST OF OUR OTHER CONTACTS LIKELISE MAINTAIN THAT IRANIAN CAPITAL FLIGHT THROUGH KUWAIT IS THE PRINCIPAL CAUSE OF THE CURRENCY PHENOMENON. KUWAIT, THEY NOTE, IS THE NEAREST FREE TRANSFER POINT TO IRAN HAVING A RELATIVELY EFFICIENT BANKING SYSTEM CAPABLE OF HANDLING THE LOAD. THUS FAR, EVEN APPROXIMATE FIGURES OF THE AMOUNTS INVOLVED HAVE BEEN IMPOSSIBLE TO OBTAIN, BUT OUR SOURCES PRESUME THAT THE MAJORITY OF THESE TRANSFERS ARE DESTINED FOR EUROPEAN DOLLAR MARKETS AND FOR THE UNITED STATES, WITH DESIRABLE DEUTSCHMARK, SWISS FRANC, AND JAPANESE YEN PLACEMENTS MORE DIFFICULT TO OBTAIN.

5. RUMORS HAVE NOT BEEN CONFINED TO IRANIAN CAPITAL FLIGHT. OUR CONTACTS ALSO REPORT A LOCAL MONEY SQUEEZE THAT HAS SEVERAL BANKS SHARPLY REDUCING OVERDRAFT LEVELS GRANTED--PARTICULARLY ON EXPATRIATE ACCOUNTS--AND EVEN TAKING THE UNPOPULAR STEP (USUALLY AVOIDED) OF BOUNCING CHECKS OF DEFICIENT KUWAITI DEPOSITORS.
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INFO RUQMBI/AMEMBASSY ABU DHABI 4430
ZEN/USINT BAGHDAD POUCH
RUDKEBQ/AMEMBASSY BERN 51
RUFHOL/AMEMBASSY BONN 492
RUQMOD/AMEMBASSY DOHA 2332
RUQMRA/AMEMBASSY JIDDA 6033
RUDTC/AMEMBASSY LONDON 3315
RUQMAM/AMEMBASSY MANAMA 3713
RUQMMT/AMEMBASSY MUSCAT 1794
RUFNPS/AMEMBASSY PARIS 2085
RUQMYA/USLO RIYADH 300
RUQMHR/AMEMBASSY TEHRAN 4688
RUDKEBQ/AMCONSUL ZURICH 008
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C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 0701

E. IN DISCUSSING KUWAIT MONETARY FLOWS WITH THE MANAGING DIRECTOR OF ONE OF KUWAIT'S LARGEST BANKS, WE NOTED THAT EVEN THOUGH THE US HAD JUST ANNOUNCED A LARGE TRADE DEFICIT FOR DECEMBER, THE DOLLAR REGISTERED GAINS ON VARIOUS MARKETS LAST WEEK. HE ADMITTED THAT THE POLITICAL SITUATION IN THE GULF WAS CURRENTLY CREATING HIGHER THAN NORMAL CAPITAL EXPATRIATION AND THAT THIS COULD HAVE INFLUENCED WESTERN MONEY MARKETS AS WE HAD NOTED. WHILE MOST OF THE FLOW WAS FROM IRAN, HE SAID, SOME ABOVE-NORMAL AMOUNTS WERE ALSO COMING FROM KUWAIT. HE DESCRIBED THE LOCAL MONEY MARKET AS "NERVOUSE" BUT INSISTED THAT THIS WAS NOT AN EXAGGERATED OUTFLOW, GIVEN THE USUAL HIGH LEVEL OF FOREIGN PLACEMENTS FROM KUWAIT. HE PROVIDED NO FIGURES, BUT SAID THAT, IN ABSOLUTE TERMS, THE AMOUNT OF MONEY OVER NORMAL LEVELS WHICH HAD LEFT KUWAIT SINCE LAST NOVEMBER WAS "REALLY NOT IMPORTANT." HE CONTINUED THAT, AS A RESULT OF EVENTS IN IRAN, KUWAITIS HAD BECOME LESS SHOWY WITH THEIR MONEY. WHILE THIS WAS A SIGN OF NERVOUSNESS TO WHICH HE HAD REFERRED, HE BELIEVED THAT REALLY IDSRUPTIVE FLOWS OF KUWAITI CAPITAL WERE UNLIKELY TO BE TRIGGERED IN THE ABSENCE OF A SPILLOVER OF THE IRANIAN CRISIS ONTO THE ARAB SIDE OF THE GULF. HOWEVER, IF THERE WERE TROUBLES IN BAGHDAD, HE SAID KUWAIT MONEY WOULD FLOOD OUT OF THE COUNTRY.

F. COMMENT: THE CENTRAL BANK HAS JUST RELEASED CONSOLIDATED BANKING STATISTICS FOR THE FINAL QUARTER OF 1978. THE FOREIGN ASSETS OF KUWAITI BANKS INCREASED BY 275 MILLION DINARS

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(1 KD EQUALS $3.70) OVER THE THIRD QUARTER. PRIOR QUARTERLY INCREASES DURING 1978 WERE 30 MILLION DINARS FROM THE FIRST TO THE SECOND QUARTER AND 40 MILLION DINARS FROM THE SECOND TO THE THIRD QUARTER. WHILE THIS MUSCH OF AN INCREASE COULD SIG CAPITAL FLIGHT, WE NOTE THAT SIGHT, TIME, AND SAVINGS DEPOSITS OF KUWAITI RESIDENTS IN KUWAIT ALSO INCREASED STEADILY DURING THE ENTIRE YEAR: BY 110 MILLION DINARS FROM THE FIRST TO THE SECOND QUARTER; BY 52 MILLION DINARS FROM THE SECOND TO THE THIRD QUARTER; AND BY 120 MILLION DINARS FROM THE THIRD TO THE FOURTH QUARTER. MAESTRONE
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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: February 12, 1979

SUBJECT: Kuwait Oil Production Policy; OPEC Pricing Policy; Iranian Crisis; Regional Security in the Gulf and the Linkage to Arab/Israel Affairs, Iraq/Syria Union

PARTICIPANTS: Mr. Mahmoud K. al-Adasani, Under Secretary, Ministry of Oil, Kuwait

Mr. Quincey Lumsden, Economic Section (TDY), Amembassy, Kuwait

PLACE: Ministry of Oil, Kuwait City

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I began by asking Mahmoud about an item I had seen in the Petroleum Trade Press in France prior to my arrival in Kuwait at the end of January. I said it had been reported that Kuwait was authorizing increased off-take to its traditional customers (BP, Gulf, and Shell) above the 2 million bpd total limit currently imposed. I added that the Trade Press report indicated that each of these companies was to be permitted about 40,000 bpd of extra oil this year. Mahmoud responded that the report was "about right." He said that Kuwait would not adhere strictly to a flat 2 million bpd limit. This limit, he said, is a self-imposed indicative planning target in any event, since the National Assembly has been dissolved. Further, he continued, since Kuwait lost a number of important sales while the Doha two-tier pricing system was in effect, a little bit of over production would simply permit average liftings to rise to the 2 million bpd authorized limit for the overall 1977 through 1979 period.

Mahmoud continued that since Kuwait has a balanced budget and no major financial problems face the government, the 2 million bpd limit would remain the guide-line for the forseeable future. He explained that any small, temporary increases above 2 million bpd, which might be authorized from time to time--such as the current ones--were motivated principally by domestic economics. (n.b. The

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correctness of this statement is arguable in light of statements by impeccable Embassy sources that the increase was motivated by international political considerations.) The 1979 production increases, Mahmoud maintained, are gas oriented. He said the staggering growth of Kuwait City, which showed no signs of slowing up, plus the upcoming inauguration of the Kuwait Oil Company's new 1 billion dollar LPG plant would produce in 1979 a sharp increase in local demand for associated gas. For the time being, he said, the only way to meet this demand was through an increase in oil production. Since free non-associated gas could not be counted upon over the near term, Mahmoud said that the Ministry of Electricity and Water had been instructed by the government to allow for dual-firing of its power and water installations. "We are preparing to use more heavy fuel oil and even straight crude to make electricity and water," he said, but potential "savings" in times of short supply have now been offset with the huge LPG project coming onstream. This had been designed to operate on the surplus associated gas produced when Kuwait had a 3 million bpd national oil production limit.

Mahmoud granted that Kuwait's decision to increase oil production did have important international ramifications. Nevertheless, he again insisted that the primary reason for the decision was domestic. He emphasized this point by citing two non-domestic factors which he said operated as constraints upon increased oil production from Kuwait. First, he said, Kuwait had been "burned" and had lost customers during the two-tier price system. Thus, since its heavy crude made it a continuing target for this sort of thing in a soft market situation, Kuwait did not now wish to utilize the customer-stealing precedent at the expense of other OPEC members, even though the market is tight. Secondly, the fact that in this particular instance the affected OPEC member was Iran made Kuwait doubly cautious. It was at Iran's expense, he noted, that Kuwait first became a major oil exporter back in the early 1950's. Now, however, given the nature of Khomeini's movement and its possible implications for Arab oil producers, Kuwait would not wish to add any "irritant" to its relations with Iran's new leaders.

I asked Mahmoud if he could confirm press reports that the ministers of the Arab oil producing states in the Gulf were re-examining crude oil pricing schedules in the light of the effects of the Iranian crisis. He replied in the affirmative and said that a decision would be made momentarily on prices to be charged for amounts of oil lifted above the national production limits established by these producing states. For example, he said, Kuwait is currently selling its crude to traditional customers at a price of $12.83 per barrel, but this oil in today's market has an immediate resale value of $15.00 per barrel, and lighter crudes will bring about $17.00 per barrel. I asked if the ministers were focusing their price discussions upon the already-established OPEC price schedule for the 4th quarter of 1979, or upon the prices apparently being contracted for in the volatile spot market. He replied "actually, neither," and said that the producers were concentrating upon the excess profits companies currently could make by "rolling over"

contract oil purchased under current OPEC prices. I asked if this meant that the decision would be likely to fall somewhere between the $15 and $17 he had mentioned and he replied that he did not know where the ministers would set the price.

Mahmoud agreed with my estimate that the current shortfall in free world oil production was between two and three million barrels per day as a result of the Iranian crisis. He added his view, however, that with some upward price revisions, there should be little difficulty in making up this shortfall. OPEC, he continued, was already making up for about 3 million bpd of Iran's former 5 to 6 million barrel production. In addition to OPEC, non-OPEC sources such as Mexico were in good position to assist in filling the gap.

Iran was discussed next. Mahmoud was of the opinion that the Shah had been a victim of indecision among western leaders. He admitted that over the past three months the situation had deteriorated to the point where there was little or nothing that the United States could have done to maintain the Shah in power, but he said he could not understand why it had not helped the Iranian government much earlier on, "while there was still time." He continued, "you did nothing, so France has come off as the big winner. They even brought the hero home in one of their airplanes."

Mahmoud continued that he thought it would be a mistake for the United States to attempt to connect the Camp David Agreements with the situation in the Gulf. He said the Gulf situation was a separate affair, having its own independent set of dynamics. The one phenomenon connecting the Levant and the Gulf, he said, was that of Islamic revivalism. He added that this was unlikely to work to the advantage of the Camp David Agreements, because overall Islamic opinion was now going to be more disapproving than ever of accommodations to Israel.

The direct effect of the Iranian crisis in Kuwait would be limited, Mahmoud thought. There would surely be some pressure from conservative, religious elements and some activity by the younger generation. But he felt that the government could avoid domestic trouble by complementing Kuwait's prevailing atmosphere of material well-being with a return to parliamentary democracy. Noting local media reports that, in any new National Assembly, the ruling family might wish to appoint a significant number of deputies, Adasani said the Sabah should limit themselves to appointing ministers who automatically also serve as Assembly delegates. Excessive dependence upon appointed delegates, he said, would incur the dissatisfaction and disapproval of the electorate and offset many of the stabilizing benefits of a return to democracy.

The conversation then focused on the proposed union between Iraq and Syria. The Under Secretary thought that it was very unlikely the union would actually be achieved at any time in the near future. But he said that, while neither Assad nor Saddam Hussein was prepared to relinquish and of his powers to the other, the Arab cause would be served if the

present atmosphere induced them at least to stop working against each other. The Baghdad Summit was a great success in Adasani's eyes. "The Iraqis are much more self-confident now and they want to play a responsible inter-Arab role." The crisis in Iran, he said, was as much or more responsible for this new attitude in Baghdad than was the continuing Arab confrontation with Israel.

Finally, Mahmoud noted that Kuwaiti PM Shaikh Saad's recent trip to neighboring Arab states was another direct result of the Baghdad Summit. He termed Saad's trip a plus for Kuwaiti diplomacy. This aims at the maximum cooperation among littoral states, in order to avoid regional tension which could stimulate unwanted intervention in the area by outside powers.

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DEPARTMENT OF STATE

G / ECON
IE2 - Kuwait

Memorandum of Conversation

DATE: February 13, 1979

SUBJECT: Oil and Monetary Policy; Effects of the Iran Crisis and U. S. Posture

PARTICIPANTS: Mr. Hamza Abbas Hussein, Governor, Central Bank of Kuwait, Kuwait
Mr. Quincey Lumsden, Economic Section (TDY), Amembassy, Kuwait

PLACE: Central Bank of Kuwait, Kuwait

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I explained to Hamza Abbas that, after over three years away from daily contact with Gulf affairs, my visit to Kuwait was mostly a listening one and I would be happy to hear any comments he might have on monetary matters and how he saw the crisis in Iran affecting the Gulf area in general. He began his response by commenting that he was happy to see that the dollar was doing much better on the exchange markets than it had been several months ago. "None of us believes that we are out of the woods," he said, "but your monetary policies are more credible now." USG efforts in coming months to control inflation and its balance of payments, will tell the story, Hamza continued. He added "it is in our interest in Kuwait to see a strong dollar." Hamza Abbas said Kuwait was not going to act irresponsibly on oil prices for this reason, but that we should realize the monetary policy that the U.S. had been practicing in recent months presented Kuwait with a dilemma. He said that for a while he had the impression the USG regarded exchange rate policies as unrelated to OPEC and solely a tactical weapon in its tug-o-war with Germany and Japan to get these two countries to stimulate their economies. The falling dollar which resulted, however, presented OPEC with real economic and political problems. Even Saudi Arabia, he said, was unable

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to maintain support for a continuing price freeze when oil was declining rapidly in value in respect to imports from the industrialized world. The dilemma, he continued, is that we know that increased oil prices will bring the dollar under pressure and hurt both our purchasing power and the value of our investments. However, when the USG lets the dollar fall anyway, we simply do not have the ability to stand by and watch our principal resource lose value. "We are caught in a balancing act."

Hamza Abbas continued that the real price of OPEC crude oil was still too low in comparison with other economic indicators. The Abu Dhabi price schedule for 1979, he maintained, was "very conservative." With the Iran crisis again pressuring the world market, it had become clear that oil companies were now able to reap unexpected profits on the "cheap" contract oil they were obtaining from the producing states. Thus, Hamza Abbas said, there will undoubtedly soon be another slight increase announced to compensate for these current market conditions. We said some price increase now would be preferable to holding off too long and then having the price take a quantum jump upward which would really wreck havoc in the international money markets.

Hamza Abbas took a calm-and-collected approach to the Iran crisis. (n.b. Our conversation took place the day before the attack on the American Embassy in Tehran.) He said that the crisis in Iran was producing such a dramatic atmosphere in the area that it was becoming difficult for most people to make clear and logical analyses. Nevertheless, Hamza Abbas continued, we should all try to look beyond the day's headlines and glean out what elements of truth we can from the present situation. In spite of all of Iran's revolutionary fervor, he insisted, Khomeini will need to get his economy going again, and this means that he will have to reach a working agreement with the United States. One thing is certain, he said, and that is that Khomeini is not a leftist. This being the case, the United States should now concentrate on finding matters of mutual economic interest with Iran. The U. S. should play down the political/military aspect of the situation as much as possible. "Go into them with economic suggestions," he said, since these ought to be easier to come up with than political ideas for the time being.

Hamza Abbas continued that the Arab states too were going to have to work out a new set of relationships with Iran. If Khomeini stays in power, he said, it appears as though Iran will steer a course closer to the Arab world than was the case under the Shah. Every foreign policy position taken by Khomeini and his supporters since they assumed power, Hamza said, shows that they want amicable relationships with their Arab neighbors. He cited declarations of support

for Palestine, relinquishment of the Shah's assumed role as guardian of the Gulf, and the possible return to Arab hands of Abu Musa and the Tunbs. Even so, he continued, an effect of the revolution in Iran has been to alert the governments of Arab states in the Gulf to the need for constant pulse taking with regard to their own domestic political situations. In Kuwait, he concluded, the ruling family is popular and the vast majority of the people--both Kuwaitis and non-Kuwaitis--in the country were well-off and happy. Egypt, he said, is the Arab country with domestic conditions most similar to those which had prevailed in Iran, and "Egypt is the most likely candidate for the next Islamic revolution."

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C O N F I D E N T I A L KUWAIT 1388

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E.O. 11652: GDS
TAGS: EFIN, KU
SUBJ: AMIR'S INVESTMENT ADVISOR DISCUSSES DOLLAR PROBLEM

REF: (A) KUWAIT 1367, (B) KUWAIT 1250, (C) KUWAIT 1231

1. SUMMARY: AMIR'S INFLUENTIAL FINANCIAL/INVESTMENT ADVISOR ABU SA'UD TOLD AMBASSADOR MARCH 7 THAT RECENT STATEMENTS BY KUWAITI MINISTER ON DECLINE OF DOLLAR WERE SOMEWHAT EXAGGERATED. HE STRESSED THAT AMIR'S MARCH 1 STATEMENT ON POSSIBLE GOK INITIATIVE FOR EMERGENCY OPEC CONFERENCE WAS CONDITIONAL ON "CONTINUED SLIPPLAGE OF THE DOLLAR." IN SUCH CASE ABU SA'UD SAW NEED TO MAINTAIN LEVEL OF REVENUE FROM OIL SALES BY EITHER DIRECT PRICE INCREASE OR ESTABLISHMENT OF RELATIONSHIP BETWEEN OIL PRICE AND AN OPEC BASKET OF CURRENCIES. HE BELIEVES USG COULD DO MORE TO SUPPORT THE DOLLAR AND ADVOCATED COOPERATION TO DEAL WITH THIS PROBLEM. AMBASSADOR FEELS THAT EARLY CONTACT WITH ABU SA'UD BY MIDDLE-LEVEL U.S. MONETARY EXPERT MIGHT BE USEFUL. END SUMMARY.

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2. AMBASSADOR, ACCOMPANIED BY E/C SECTION CHIEF, CALLED ON KHALID ABU SA'UD, FINANCIAL ADVISOR TO THE AMIR, TO DISCUSS CURRENT KUWAITI AGITATION OVER DECLINE OF DOLLAR AND DEVELOPING PRESSURE HERE FOR OIL PRICE INCREASE. (ABU SA'UD WAS MINFIN DIRECTOR OF INVESTMENTS FOR OVER 20 YEARS AND NOW WORKS DIRECTLY WITH AMIR AS INVESTMENT COUNSELOR FOR BOTH SABAH FAMILY AND GOK INVESTMENTS. HE IS ALSO FINANCIAL ADVISOR FOR THE ABU DHABI FUND.)

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3. MINISTERIAL REACTION. ABU SA'UD TENDED TO DISMISS MINISTERIAL AND PRESS REACTION ON THIS MATTER AS SOMEWHAT EXAGGERATED AND ILL-INFORMED. HE POINTED TO AMIR'S STATEMENT, CONVEYED BY THE OIL MINISTER TO PRESS MARCH 1 (REF B), AS CAREFULLY DRAFTED POSITION OF GOK AND UNDERLINED REFERENCE TO CONDITIONAL PHRASE RE CONTINUING SLIPPAGE OF DOLLAR. GOK DECISION TO ASK FOR EMERGENCY OPEC MEETING TO CONSIDER POSSIBLE OIL PRICE INCREASE TO COMPENSATE FOR DOLLAR DECLINE WOULD HINGE ON SUCH CONTINUED DETERIORATION. ABU SA'UD EMPHASIZED THAT GOVERNMENT DECISIONS ON THIS MATTER WOULD BE TAKEN DIRECTLY BY AMIR (WITH ABU SA'UD'S ADVICE).

4. NO LONG TERM CONCERN. ABU SA'UD WAS NOT CONCERNED ABOUT THE EFFECT OF THE DOLLAR'S DECLINE ON KUWAITI INVESTMENTS, SINCE THESE WERE LARGELY OF A LONG-TERM VARIETY. SHORT-TERM FLUCATION OF LONG-TERM "TANGIBLE" INVESTMENS IN THE U.S. DID NOT REALLY MATTER. (ABU SA'UD SAID THAT 55 PERCENT OF REAL-EXCLUDING "POLITICAL"- INVESTMENT WAS IN U.S.) AMIR WAS CONVINCED THAT THE U.S. ECONOMY WAS VERY STRONG AND WOULD REMAIN SO. IN FACT, STRONG CURRENCIES SUCH AS THE SWISS FRANC AND DEUTSCHE MARK WERE OVERVALUED IN RELATION TO THE BASIC STRENGTH OF THEIR COUNTRIES' ECONOMIS EITHER IN THE SHORT TERM (FOR SWITZERLAND) OR OVER FIVE-YEAR PERIOD DURING WHICH GERMAN ECONOMY IS EXPECTED TO WEAKEN A BIT. IN ANY EVENT, U.S. HAS THE ONLY ECONOMY WHICH CAN ABSORB THE MAGNITUDE OF THE LONG-TERM INVESTMENTS BEING MADE BY ARAB OPEC COUNTRIES.

5. SHORT-TERM BUDGETARY CONCERN: ACCORDING TO ABU SA'UD, GOK CONCERN STEMS RATHER FROM IMPACT OF THE DOLLAR'S DROP ON SHORT-TERM FUNDS WHICH KUWAIT KEEPS IN NEW YORK TO PAY FOR ON-GOING BUDGETARY EXPENDITURES. ABU SA'UD PROVIDED THE FOLLOWING EXPLANATION. ALL KUWAIT OIL RECEIPTS ARE PAID IN DOLLARS IN NEW YORK. THESE FUND ARESPLIT INTO A BUDGET ACCOUNT AND A RESERVE ACCOUNT, THE LATTER LARGELY CHANNELED INTO LONG-TERM INVESTMENTS. THE BUDGET ACCOUNT IS KEPT IN SHORT-TERM INSTRUMENTS OF SEVEN DAYS TO A YEAR'S MATURITY. THIS AMOUNTS TO THREE TO FOUR BILLION DOLLARS; THE ONLY PLACE WHICH HAS INSTRUMENTS LARGE ENOUGH TO HANDLE SUCH FUNDS IS NEW YORK. EACH MONTH KUWAIT DRAWS DOWN FROM THESE FUNDS ROUGHLY THREE HUNDRED MILLION DOLLARS FOR CURRENT AND DEVELOPMENTAL GOVERNMENT EXPENDITURES, CONVERTING SOME OF THE DOLLARS TO KUWAIT DINARS. IN THE PAST TWO MONTHS THE DOLLAR DEPRECIATED AGAINST THE DINAR ROUGHLY 4-5 PERCENT ON A WEIGHTED AVERAGE BASIS. MUCH OF GOVERNMENT EXPENDITUES ARE FOR IMPORTS, WITH ONLY 17 PERCENT OF KUWAIT IMPORTS COMING FROM THE U.S., AND SIXTY-FIVE PERCENT BEING PROCURED FROM THE EEC COUNTRIES AND JAPAN. IN THE PAST YEAR THE DOLLAR DEPRICIATED 13 PERCENT AGAINST THE DEUTSCHE MARK, 21 PERCENT AGAINST THE YEN, 27 PERCENT AGAINST THE SWILL FRANC OR--ON A WEIGHTED AVERAAGE BASIS--ROUGHLY 12 TO 13 PERCENT. THUS OLTEIPK

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RECIATION PERCENTAGES RESULTS IN A LOSS TO KUWAIT OF APPROXIMATELY 10 PERCENT, OR AT LEAST $300 MILLION PER YEAR. (HENCE MINISTER OF STATE HUSSEIN'S FIGURE OF ONE MILLION DOLLARS A DAY--REF. A.)

6. NEED FOR ASSURED OIL REVENUES. ABU SA'UD REEMPHASIZED THAT THE AMIR WAS CONVINCED OF THE STRENGTH OF THE U.S. ECONOMY AND FELT THAT THE ADMINISTRATION WOULD TAKE THE NECESSARY STEPS TO COPE WITH THE U.S. ENERGY PROBLEMS, ETC. CONSEQUENTLY, THERE WAS NO NEED FOR CONCERN ABOUT KUWAIT'S LONG-TERM ASSETS IN THE U.S. HOWEVER, SOMETHING NEEDED TO BE DONE TO PROTECT KUWAIT'S OIL REVENUES. THERE WERE TWO WAYS TO DO THIS: (A) TO RAISE THE PRICE OF OIL, OR (B) TO WORK OUT SOME BASKET OF CURRENCIES IN RELATION TO WHICH THE DOLLAR-DONOMINATED PRICE OF OIL WOULD FLOAT IN ORDER TO MAINTAIN A FIXED REAL PRICE FOR OIL. ABU SA'UD INDICATED A PREFERENCE FOR THE LATTER.

7. ADVERSE EFFECT OF OIL PRICE INCREASE. AMBASSADOR POINTED OUT THAT WHICHEVER ALTERNATIVE WERE SELECTED, IT WOULD RESULT IN AN INCREASE IN THE COST OF OIL AND THUS HAVE AN OVERALL ADVERSE EFFECT ON WORLD ECONOMY. MOREOVER, IT WOULD PROBABLY FURTHER DEPRESS THE VALUE OF THE DOLLAR, WHICH WAS CERTAINLY NOT IN THE INTEREST OF THOSE OPEC COUNTRIES WHICH MAINTAINED THEIR INVESTMENTS IN DOLLARS. THE DOLLAR HAD HAD ITS UPS AND DOWNS, AND KUWAIT HAD, IN EFFECT, MADE MONEY ON THE FORMER. ABU SA'UD FELT THAT THE DOLLAR HAD NEVER BEEN OVERVALUED, BUT HE DID AGREE WITH THE AMBASSADOR THAT FLOATING SCHEME DESCRIBED ABOVE WOULD POST MANY COMPLICATIONS AND WOULD BE DIFFICULT TO WORK OUT.

8. ADVERTING TO THE AMBASSADOR'S COMMENT ON THE GLOBAL IMPACT OF AN OIL PRICE INCREASE, ABU SA'UD COMMENTED THAT OTHERS DID NOT SHARE THIS AMERICAN CONCERN, NOTING THAT EVEN THOUGH DOLLAR DECLINE MEANT GERMANS WOULD PAY LESS FOR OIL, FRG PREFERRED TO SEE DOLLAR APPRECIATE. AMBASSADOR POINTED OUT THAT GERMANS HAD ALWAYS BEEN OVERLY CONCERNED WITH THREAT OF INFLATION AND, BESIDES, ENJOYED VERY FAVORABLE BALANCE OF PAYMENTS POSITION. THIS WAS NOT THE CASE OF MOST OTHER WESTERN COUNTRIES, FOR WHOM OIL PRICE FREEZE WAS PROVIDING A RESPITE DURING WHICH EFFORTS WERE BEING MADE TO STABILIZE THEIR ECONOMIS. ANOTHER BASIC FACTOR TO BE KEPT IN MIND IS THAT THE BURDEN OF MAINTAINING A RESERVE CURRENCY, WHICH U.S. CARRIE, WAS A HEAVY ONE. THOSE WHO USED THE DOLLAR AND INVESTED IN ITS INSTRUMENTS SHOULD NOT TAKE STEPS WHICH COULD FURTHER DAMAGE THE DOLLAR. WHAT IS NEEDED NOW IS COOPERATION TO ENSURE THAT REASONABLE STEPS ARE TAKEN TO RESTORE MONETARY STABILITY.

9. PROTECTION OF VALUE OF OIL REVENUES. ABU SA'UD REPEATED THAT PROBLEM NOW WAS TO PROTECT REAL VALUE OF OIL REVENUES. HOWEVER, THERE WOULD BE NO NEED TO ADOP EITHER OF THE ABOVE-MENTIONED MEASURES (PARA 6) IF THE DOLLAR REGAINED STRENGTH AND STABILIZED. THIS WAS CLEARLY INDICATED IN THE AMIR'S STATEMENT. ABU SA'UD

DEFINED STABILIZATION AS STEADY IMPROVEMENT OVER A TWO-WEEK PERIOD. IF THE DOLLAR EVENTUALLY APPRECIATED AGAINST THE D-MARK BACK TO THE 2.30 DM LEVEL OF A YEAR AGO, THIS WOULD BE SUFFICIENT.

10. CONSERVATIVE PRACTICES. ABU SA'UD EXPLAINED THAT, EVEN THOUGH THERE WERE MANY OCCASIONS WHEN KUWAIT COULD HAVE MDE CONSIDERABLE AMOUNTS OF MONEY BY FOREIGN EXCHANGE SPECULATION, IT HAD ASSIDOUSLY AVOIDED SUCH PRACTICES AND HAD BANNED ALL GOVERNMENT ENTITIES, OR COMPANIES IN WHICH THE GOVERNMENT HAD AN INTEREST, FROM ENGAGING IN SPECULATION.

KUWAIT'S ONLY CONCERN, HE REPEATED, WAS TO MAINTAIN STABLE OIL REVENUES. THERE ARE MANY WAYS THE U.S. COULD HELP THIS SITUATION, SUCH AS BY SUPPORTING THE DOLLAR THROUGH RAISING INTEREST RATES, MORE ACTIVE USE OF SWAP ARRANGEMENTS, ETC. U.S. KUWAIT COULD COOPERATE ON THIS PROBLEM.

11. ABU SA'UD ALSO COMMENTED THAT, WHILE A CHEAP DOLLAR WOULD PROMOTE U.S. EXPORTS AND EVENTUALLY STRENGTHEN DOLLAR, THIS WOULD NOT BE REFLECTED IMMEDIATELY, SINCE SUBSTANTIAL PURCHASES REQUIRE LONG LEAD TIME. THEREFORE, THIS WOULD NOT SOLVE KUWAIT'S PROBLEM NOW.

12. AMBASSADOR THANKED ABU SA'UD FOR HIS EXPLANATION OF KUWAITI POSITION ON THIS MATTER. HE EXPRESSED HOPE THAT GOK WOULD REVIEW CAREFULLY ANY STEPS WHICH IT MIGHT TAKE WITH RESPECT TO THE OIL PRICE AND ANY OTHER ACTION WHICH COULD IMPACT UNFACORABLY ON THE CURRENT MONETARY SITUATION.

13. COMMENT: ABU SA'UD CLEARLY PLAYS IMPORTANT ROLE IN AMIR'S DECISION-MAKING ON OIL PRICE/DOLLAR PROBLEM AND MAY HAVE SOME INFLUENCE ON THE UAE THROUGH HIS CONNECTIONS IN ABU DHABI. HE IS CLEARLY A CONSERVATIVE PROFESSIONAL WHO HAS A BLANCED VIEW OF THE CURRENT MONETARY PROBLEM. HOWEVER, HE SHARES GOK CONCERN FOR SHORT-TERM FINANCIAL LOSSES BEING INCURRED AS RESULT OF DOLLAR DECLINE AND CAN BE EXPECTED TO PARTICIPATE IN WORKING OUT SOME PLAN TO PRESERVE WHAT HE CALLS THE "REAL" VALUE OF OIL, IF THIS IS CLEAR OPEC CONSENSUS. OIL MINISTER SHAIKH ALI KHALIFA AND FINANCE MINISTER AL-ATEEQI HAVE LED KUWAITI CHORUS FOR REEVALUATION OF SITUATION, WHICH ESSENTIALLY STIMULATED BY GOK UNHAPPINESS OVER OIL PRICE FREEZE IMPOSED ON OTHER OPEC NATIONS BY SAUDI ARABIA AND IRAN. WHILE ABU SA'UD'S REMARKS INDICATE AMIR IS SYMPATHETIC TO THIS VIEW, LATTER TENDS TO TAKE MORE CAUTIOUS APPROACH. THUS, SOME DELAY IS POSSIBLE BEFORE KUWAIT PUSHES FORMALLY FOR AN EMERGENCY OPEC MEETING IN ORDER TO SEE WHETHER DOLLAR CAN RECOVER. SUCH A DELAY WOULD PROBABLY NOT LAST BEYOND A COUPLE OF WEEKS.

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14. WHILE TELEPHONIC DISCUSSION BETWEEN TREASURY OFFICIALS AND THE OIL AND FINANCE MINISTERS WOULD UNDERLINE U.S. INTEREST IN CURRENT GOK CONVERNS, IT IS DOUBTED THIS WOULD SERVE TO ALLAY THEM. BECAUSE OF KEY ROLE PLAYED BY KHALID ABU SA'UD IN THIS MATTER, HOWEVER, AMBASSADOR BELIEVES THAT TREASURY CONTACT WITH HIM IN SOME FASHION MIGHT BE HELPFUL. IF A VISIT BY A MIDDLE-LEVEL OFFICIAL WELL VERSED IN MONETARY AFFAIRS TO THE AREA WERE ORGANIZED OR A MEETING ARRANGED ELSEWHERE, PRESENTATION OF U.S. VIEWS AND DESCRIPTION OF POSSIBLE USG MOVES TO STABLIZE MONETARY SITUATION MIGHT INFLUENCE POTENTIAL GOK ACTIONS DIRECTED TOWARD INCREASE IN OIL PRICE. IT WOULD ALSO SERVE AS DEMONSTRATION OF U.S. COOPERATION WITH KUWAIT. VISIT BY HIGHER LEVEL OFFICIAL, ON OTHER HAND, WOULD PLACE FOCUS OF EFFORT AT MINISTERIAL LEVEL WHERE LESS MODERATION AND SYMPATHY TOWARD U.S. WITH RESPECT TO PRESENT SITUTATION PREVAIL.

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RUTAQL/AMEMBASSY LAGOS 387
RUFHLC/AMEMBASSY LIBREVILLE 243
RUDTC/AMEMBASSY LONDON 3429
RUFNPS/AMEMBASSY PARIS 2170
RUESQI/AMEMBASSY QUITO 236
RUQMHR/AMEMBASSY TEHRAN 4709
RUEHKO/AMEMBASSY TOKYO 598
RUQMTI/AMEMBASSY TRIPOLI 1271
RUFHAU/AMEMBASSY VIENNA 416
RUEHEG/AMEMBASSY CAIRO 2339
RUQMKM/AMEMBASSY KHARTOUM 654
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C O N F I D E N T I A L SECTION 1 OF 3 KUWAIT 1771

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

E.O. 12065: GDS 4/14/85 (MAESTRONE, FRANK E.) OR-M
TAGS: ENRG, OPEC, KU
SUBJECT: AMBASSADOR'S MEETING WITH OIL MINISTER

REF: (A) STATE 79572 (NOTAL), (B) KUWAIT 1736 (NOTAL)
(C) STATE 91555 (NOTAL)

1. (C - ENTIRE TEXT)

2. SUMMARY: AMBASSADOR MET WITH OIL MINISTER APRIL 14 AND REVIEWED VARIOUS QUESTION IN THE OIL FIELD RELATION TO PRICE, PRODUCTION, ACTIONS AGAINST EGYPT, AND THE PRESIDENT'S NEW ENERGY PROGRAM. OIL MINISTER CONFIRMED KUWAITI SURCHARGE OF $1.80 FOR KUWAIT'S HEAVY CRUDE (31-GRAVITY) AS WELL AS A PREMIUM CHARGE OF $4 OVER FOURTH-QUARTER OPEC PRICE ($14.00) FOR KUWAIT CRUDE OIL OBTAINED BY PURCHASERS IN EXCESS OF THEIR CONTRACTS. HE INDICATED THAT IT WAS KUWAIT'S FIRM INTENTION TO MEINTAIN ITS INCREASED PRODUCTION LEVEL OF 2.2 MBPD FOR 1979. AMBASSADOR REVIEWED THE PRESIDENT'S NEW ENERGY PROGRAM, LEAVING COPY OF FACT SHEET PROVIDING DETAILED INFORMATION ON PROGRAM. AMBASSADOR EXPLAINED THAT THIS PROGRAM SHOULD RESULT IN REDUCTION OF US OIL DEMAND AND SAID THAT HIS CONVERSATIONS WITH IEA SEC GEN IN PARIS REVEALED THAT OECD COUNTRIES WERE MAKING DETERMINED EFFORTS TO MEET OR EVEN EXCEED 5 PERCENT REDUCTION IN DEMAND FOR OIL. END SUMMARY

3. I MET APRIL 14 WITH OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH IN ORDER TO REVIEW DEVELOPMENTS WHICH HAD TAKEN PLACE IN THE OIL FIELD DURING MY ABSENCE ON CONSULTATIONS IN WASHINGTON. I OBSERVED THAT THE MARCH 26 OPEC CONSULTATIVE MEETING IN GENEVA ACTUALLY DID RESULT IN PRICE DECISIONS. OIL MINISTER AGREED THAT THIS WAS NOT ORIGINAL INTENTION, BUT NOTED THAT MARKET SITUATION FORCED CONSIDERATION OF PRICE LEVELS. I REVIEWED USG POSITION WHICH REGARDED THE OPEC PRICE INCREASE, PARTICULARLY THE SURCHARGES, AS UNHELPFUL, NOTING THE UNFORTUNATE IMPACT IT WOULD HAVE ON THE US AND WORLD ECONOMY NOT ONLY WITH RESPECT TO OUR ANTI-INFLATION PROGRAM BUT ALSO AS A DETERRENT TO THE DEVELOPMENT PROGRESS OF LDC'S (REF A).

4. OIL FOR SUDAN. SHAIKH ALI KHALIFA SHOWED MORE CONCERN OVER QUESTION OF OIL SUPPLY FOR LDC'S THAN FOR THE PRICE IMPACT ON THEIR ECONOMIES. HE NOTED THAT FORCE MAJEURE DELAY ON THE PART OF THE KUWAIT NATIONAL PETROLEUM COMPANY (KNPC) IN PROVIDING REFINED PRODUCTS TO THE SUDAN RESULTED IN A SERIOUS SUPPLY SHORTAGE THERE. HE SAID HE HAD INSTRUCTED KNPC TO SHIP THE PRODUCTS WHICH WERE DELAYED AS QUICKLY AS POSSIBLE AND TO ENSURE THAT THEIR SCHEDULE OF DELIVERIES TO THE SUDAN WAS MAINTAINED PRECISELY. I RECALLED HAVING HEARD OF SUDAN'S DIFFICULTIES WITH OIL SUPPLIES AND COMMENTED THAT THIS SEEMS TO HAVE ARISEN BECAUSE OF IRAQ'S FAILURE TO MAINTAIN ITS DELIVERIES TO THE SUDAN--BECAUSE OF POLITICAL REASONS I OPINED. ALI KHALIFA SAID THAT THIS APPLIED ONLY TO CRUDE OIL SUPPLIES AND NOTED THAT SAUDI ARABIA HAD AGREED TO ASSURE THAT CRUDE OIL SUPPLIES FOR SUDAN'S REFINERY WOULD BE PROVIDED. HOWEVER, HE NOTED THAT THE REFINERY WAS SCHEDULED TO SHUT DOWN FOR OVERHAUL WITHIN A FEW WEEKS--MOST REGRETTABLE TIMING HE THOUGHT.

5. KUWAIT PRICING. SHAIKH ALI KHALIFA CONFIRMED THE NEW SURCHARGE OF $1.80 PER BBL FOR KUWAIT CRUDE AS WELL AS THE PREMIUM OF $4 PER BBL TO BE ADDED TO FOURTH QUARTER OPEC PRICE FOR KUWAIT OIL PURCHASED OVER AND ABOVE CONTRACTED QUANTITIES. WHEN ASKED TO EXPLAIN THE RATIONALE FOR THIS SPECIAL PREMIUM, ALI KHALIFA SAID IT WAS DESIGNED TO MAKE UP IN PART FOR THE LOSSES THE GOK WOULD SUFFER BY NOT PROCESSING THIS OIL THROUGH ITS OWN REFINERIES. HE CLAIMED THAT, IN ORDER TO MAKE THESE INCREASED AMOUNTS OF CRUDE AVAILABLE, HE HAD CUT THE SUPPLY TO KUWAIT OIL COMPANY (KOC) REFINERY FROM 220,000 BBLS DAILY TO 130,000 BBLS. THE EQUIVALENT INCOME FROM REFINED BARREL OF OIL COMES TO $20-21 PER BBL. THUS, THE GOK STOOD TO LOSE
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INFO RUQMBI/AMEMBASSY ABU DHABI 4611
RUFHRS/AMEMBASSY ALGIERS 963
RUFHBS/AMEMBASSY BRUSSELS 720
RUEHCR/USINT BAGHDAD 616
RUESRS/AMEMBASSY CARACAS 435
RUQMDH/AMCONSUL DHAHRAN 3959
RUQMOD/AMEMBASSY DOHA 2469
RUKOBT/AMEMBASSY JAKARTA 372
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RUTAQL/AMEMBASSY LAGOS 388
RUFHLC/AMEMBASSY LIBREVILLE 244
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RUFNPS/AMEMBASSY PARIS 2171
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RUQMHR/AMEMBASSY TEHRAN 4710
RUEHKO/AMEMBASSY TOKYO 599
RUQMTI/AMEMBASSY TRIPOLI 1272
RUFHAU/AMEMBASSY VIENNA 417
RUEHEG/AMEMBASSY CAIRO 2340
RUQMKM/AMEMBASSY KHARTOUM 655
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BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

AN ADDITIONAL AMOUNT OF INCOME BECAUSE OF ITS EFFORT TO MEET THE SHORTAGE OF WORLD CRUDE OIL SUPPLY IF IT DID NOT CHARGE AN EXTRA PREMIUM. HE MAINTAINED THAT THIS NEW PREMIUM CHARGE WAS NOT DESIGNED TO DISCOURAGE THE PURCHASE OF ADDITIONAL AMOUNTS OF CRUDE OIL. ONE OF THE TWO MAJOR OFFTAKERS OF THIS EXCESS PRODUCTION, SHELL, HAD ALREADY ACCEPTED THE NEW CHARGE. THE OIL MINISTRY HAD NOT YET HEARD FROM BP BECAUSE OF THE LONG BRITISH EASTER HOLIDAYS. NOTING THAT SAUDI ARABIA HAD NOT ADDED A SURCHARGE TO ITS OIL PRICE, I ASKED WHETHER THE KUWAIT SURCHARGE ($1.80) ALSO APPLIED TO THE OIL PRODUCED BY THE ARABIAN OIL COMPANY, WHOSE PRODUCTION WAS JOINTLY SHARED BY SAUDI ARABIA AND KUWAIT. THE OIL MINISTER CONFIRMED THAT IT DID AND SAID THE ARABIAN OIL CO. WOULD BE OPERATING IN A TWO-TIER PRICE MODE, ALTHOUGH THIS SHOULD NOT HAVE THE SAME NEGATIVE EFFECT ON THEIR SALES AS PREVIOUSLY WHEN THERE WAS AN OIL GLUT.

6. KUWAIT PRODUCTION. ALI KHALIFA CONFIRMED THAT KUWAIT WOULD MAINTAIN ITS INCREASED CEILING OF 2.2 MBPD (KOC PRODUCTION) FOR ALL OF 1979, STATING THAT THE ADDITIONAL 200,000 BBL PRODUCTION WOULD HAVE LITTLE EFFECT ON THE OPPORTUNITY FOR IRAN TO REGAIN ITS SHARE OF THE OIL MARKET. IN REPLY TO MY QUERY, HE SAID THAT THE ADDITIONAL AMOUNTS FORESEEN FOR THE THIRD QUARTER WOULD BE AVAILABLE IF THE COMPANIES WISHED TO PURCHASE THEM. HOWEVER, THE REQUIREMENT FOR AN INCREASED PRODUCTION IN ORDER TO PROVIDE SUFFICIENT GAS TO TEST THE NEW LPG FACILITY, WHICH THE GOK WAS SCHEDULED TO TAK OVER FROM THE CONTRACTORS IN THE THIRD QUARTER, WAS NO LONGER CURRENT. IN FACT, THE TEST WOULD PROBABLY BE RUN IN OCTOBER SINCE A DELAY IN THE TAKEOVER HAD BEEN NEGOTIATED WITH THE CONTRACTORS.

7. IRAN. I INQUIRED ABOUT THE IRANIAN ATTITUDE DISPLAYED AT THE GENEVA OPEC MEETING, ASKING WHETHER IT WAS THE OIL MINISTER'S IMPRESSION THAT THEY WOULD ABIDE BY THE OPEC RULES. ALI KHALIFA THOUGHT THEY WOULD. HE NOTED THAT THEY WERE INITIALLY THINKING OF ADDING A SURCHARGE OF $2.50 PER BBL, BUT AFTER KUWAIT, QATAR AND ABU DHABI HAD INSTITUTED THEIR $1.80 CHARGE, THE IRANIANS WENT ALONG WITH IT. HE COMMENTED THAT HE HAD RECENTLY HEARD UNCONFIRMED REPORTS THAT IRAN HAD ASKED ITS JAPANESE CUSTOMERS TO TAKE A 25 PERCENT CUTBACK IN THEIR SUPPLY. THIS WAS PRESUMABLY ONE IN ORDER TO ENABLE IRAN TO SELL TO FORMER CONSORTIUM MEMBERS BP AND SHELL.

8. IRAQ. THE OIL MINISTER BELIEVED THAT THE IRAQIS WERE STILL MAINTAINING THE LEVEL OF OIL PRODUCTION AT SLIGHTLY OVER 3 MBPD, HE CONFIRMED THEY WERE STILL CHANNELING ONE-THIRD OF THEIR PRODUCTION TO THE SPOT MARKET.

9. BOYCOTT OF EGYPT. ALI KHALIFA WAS CONSIDERING REQUIRING OIL TANKERS LIFTING ITS OIL TO BOYCOTT THE SUEZ CANAL AND NOT TO USE THE SUMED PIPELINE (REF C). HE OBSERVED THAT THE BAGHDAD FOREIGN/ ECONOMIC MINISTERS' MEETING RESOLUTIONS DID NOT REQUIRE THIS. I ASKED WHETHER THIS SUBJECT WOULD BE DISCUSSED AT OAPEC MEETING SCHEDULED TO BEGIN IN KUWAIT APRIL 16 THE OIL MINISTER SAID THAT IT WAS NOT ON THE AGENDA ALTHOUGH, OBVIOUSLY, ANY PARTICIPANT COULD RAISE THE MATTER DURING THE MEETING. IN ANY EVENT, THE KUWAITI POSITION ON THIS QUESTION WAS FIRM. HE EXPECTED THAT THE OAPEC MEETING WOULD REACH THE CONCLUSION TO EXPEL EGYPT, ALTHOUGH IT WAS HIS POSITION THAT THIS EXCLUSION SHOULD NOT APPLY TO THE OAPEC ASSOCIATED COMPANIES. HE EXPLAINED THAT OAPEC HAD GONE TO CONSIDERABLE EFFORT TO OBTAIN PRIVATE INVESTMENT IN ITS ASSOCIATED COMPANIES AND TO TAKE SUCH AN ACTION WOULD INTRODUCE AN ELEMENT O UNCERTAINTY INTO THE SITUATION WHICH COULD HAVE A DISCOURAGING EFFECT ON FUTURE PRIVATE INVESTMENT IN SUCH VENTURES.

10. VENEZUELAN MEETING PROPOSAL. THE OIL MINISTER INDICATED THAT KUWAIT WOULD PARTICIPATE IN THE MEETING OF OPEC AND NON-OPEC PRODUCERS WHICH THE VENEZUELAN ENERGY MINISTER WAS TRYING TO ORAGNIZE IN LONDON. HE THOUGHT THAT IT WOULD
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RUFHRS/AMEMBASSY ALGIERS 964
RUFHBS/AMEMBASSY BRUSSELS 721
RUEHCR/USINT BAGHDAD 617
RUESRS/AMEMBASSY CARACAS 436
RUQMDH/AMCONSUL DHAHRAN 3960
RUQMOD/AMEMBASSY DOHA 2470
RUKOBT/AMEMBASSY JAKARTA 373
RUQMRA/AMEMBASSY JIDDA 6209
RUTAGL/AMEMBASSY LAGOS 389
RUFHLC/AMEMBASSY LIBREVILLE 245
RUDTC/AMEMBASSY LONDON 3431
RUFNPS/AMEMBASSY PARIS 2172
RUESQI/AMEMBASSY QUITO 238
RUQMHR/AMEMBASSY TEHRAN 4711
RUEHKO/AMEMBASSY TOKYO 600
RUQMTI/AMEMBASSY TRIPOLI 1273
RUFHAU/AMEMBASSY VIENNA 418
RUEHEG/AMEMBASSY CAIRO 2341
RUQMKM/AMEMBASSY KHARTOUM 656
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C O N F I D E N T I A L SECTION 3 OF 3 KUWAIT 1771

BRUSSELS ALSO FOR USEEC

PARIS ALSO FOR USOECD

NOT TAKE PLACE UNTIL THE JULY-AUGUST TIME FRAME. WHEN I ASKED ABOUT A POSSIBLE INVITATION TO THE US TO PARTICIPATE, HE INDICATED THAT THE US WAS A NET IMPORTER AND, THEREFORE, INELIGIBLE TO JOIN THIS GROUP. HOWEVER, HE LOOKED FORWARD TO THE POSSIBILITY OF A PRODUCER/CONSUMER MEETING WHICH HE HOPED COULD BE HELD EARLY NEXT YEAR.

11. PRESIDENT'S ENERGY PROGRAM. I REVIEWED FOR THE OIL MINISTER THE PRESIDENT'S NEW ENERGY PROGRAM, WHICH I EXPLAINED WAS A COHERENT EFFORT BOTH TO INCREASE ENERGY PRODUCTION AND ENCOURAGE ITS CONSERVATION. I OBSERVED THAT IT FEATURED A PHASED DECONTROL OF CRUDE OIL PRICE AND THE INSTITUTION OF BOTH MANDATORY AND VOLUNTARY CONSERVATION MEASURES. I BELIEVED THESE WOULD RESULT IN THE 5 PERCENT REDUCTION IN DEMAND FOR OIL WHICH WE HAD AGREED TO ACHIEVE IN THE CONTEXT OF AN IEA EFFORT. ALI KHALIFA EXPRESSED CONSIDERABLE INTEREST IN THE PRESIDENT'S PROGRAM, AND I PROVIDED HIM WITH A USICA FACT SHEET WHICH INDICATED HOW COMPREHENSIVE THE PROGRAM WOULD BE. THE OIL MINISTER EXPRESSED SOME CONCERN THAT THE DECONTROL OF CRUDE PRICE WOULD BE DELAYED UNTIL LEGISLATION WAS PASSED AUTHORIZING A "WINDFALL PROFITS" TAX.

12. IEA. I ALSO RELATED TO THE OIL MINISTER MY CONVERSATION WITH IEA SEC GEN LANTZKE, WHO DESCRIBED TO ME THE EFFORTS WHICH THE VARIOUS OECD COUNTRIES WERE PLANNING TO UNDERTAKE IN ORDER TO REDUCE THEIR CONSUMPTION OF OIL BY 5 PERCENT OR MORE. I TOLD HIM THAT LANTZKE WAS HOPEFUL THAT THE IEA WOULD BE IN A POSITION TO MAKE AN IMPORTANT ANNOUNCEMENT AFTER ITS COUNCIL MEETING IN EARLY MAY.

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RUQMOD/AMEMBASSY DOHA 2465
RUQMRA/AMEMBASSYIDDA 6204
RUDTC/AMEMBASSY LONDON 3427
RUEHMO/AMEMBASSY MOSCOW 404
RUFNPS/AMEMBASSY PARIS 2168
RUQMHR/AMEMBASSY TEHRAN 4707
RUEHKO/AMEMBASSY TOKYO 595
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C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 1769

USDOC FOR CAGNE

E.O. 12065: GDS 4/14/85 (BUCK, STEPHEN W.) OR-E
TAGS: ENRG, EFIN, EAID, OPEC, KU
SUBJECT: KUWAIT OIL MINISTER ON OIL PRICING, PRODUCTION, THE DOLLAR AND RELATED ISSUES

REF: KUWAIT 1762

1. (C - ENTIRE TEXT).

2. SUMMARY. IN DEEP BACKGROUND INTERVIEW (PARTIALLY REPORTED REFTEL) WITH FINANCIAL TIMES FOREIGN EDITOR APRIL 9 KUWAIT OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH SAID THAT OTHER OPEC PRODUCERS WILLING TO CUT BACK ON THEIR EXCESS PRODUCTION TO MEET IRANIAN CONCERNS, BUT IRANIANS ARE "UNJUSTIFIABLY WORRIED." HIGHER VALUE OF DOLLAR "WOULD DEFINITELY HAVE AN EFFECT ON PERSUADING US TO KEEP OUR (OIL) PRICES DOWN". US GAS AND OIL DEREGULATION WILL HELP BUT NOT "BE THAT EFFECTIVE IN THE SHORT TERM." THERE WILL BE "EXTREME SHORTAGES (OF OIL) IN THE PERIOD SEPTEMBER THROUGH DECEMBER, 1979;" EVEN IF CONSUMERS MEET 5 PERCENT DEMAND CUT-BACK TARGET, 1980 WILL BE A "TIGHT OR VERY TIGHT" YEAR; DEMAND WILL INCREASINGLY OUTRUN SUPPLY IN SOVIET BLOC, WHICH WILL HAVE AN EFFECT ON OVERALL WORLD SUPPLY;" IRANIAN SITUATION HAS NOT CHANGED MATTERS DRAMATICALLY; IT HAS ONLY BROUGHT FORWARD THE INEVITABLE". KUWAIT WILL CONCENTRATE DEVELOPMENT EXPENDITURE IN FUTURE ON INFRASTRUCTURE - ESPECIALLY ON ROADS, HOUSING, WATER AND ELECTRICITY - AS WAY OF DISTRIBUTING WEALTH AND WILL UNDERTAKE ONLY ONE MAJOR PROJECT IN OIL SECTOR AT A TIME. END SUMMARY.

3. ON APRIL 9 FINANCIAL TIMES FOREIGN EDITOR TAPED TWO HOUR DEEP BACKGROUND INTERVIEW WITH KUWAIT OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH. FOLLOWING ARE HIGH POINTS ON ECONOMIC SUBJECTS FROM ROUGH TRANSCRIPT OF INTERVIEW WHICH EDITOR PROVIDED TO US. (MINISTER'S COMMENTS ON GULF SECURITY RELATED SUBJECTS REPORTED IN REFTEL).

4. MARCH 26 GENEVA OPEC MEETING DISCUSSION OF PRODUCTION. - AT THE OPEC MEETING, "THERE WAS NO ATTEMPT AT PRODUCTION PROGRAMMING AS SUCH OR PRODUCTION SHARING. THERE ARE CERTAIN COUNTRIES WHICH HAVE INCREASED THEIR PRODUCTION FOR THE PURPOSE OF RELIEVING THE SHORTAGE THAT WAS ON THE MARKET. OTHER COUNTRIES HAVE TRIED TO DO THEIR BEST IN RELIEVING THE CRISIS IN THE MARKET. THE IRANIANS ARE UNJUSTIFIABLY WORRIED THAT THESE HIGH LEVELS WOULD STICK AND THEY WOULD NOT BE ABLE TO PRODUCE AS MUCH AS THEY WANTED. THEY WERE ASSURED BY THE OTHERS THAT THEY WERE NOT TRYING TO TAKE IRAN'S SHARE OF THE MARKET. ON THE CONTRARY (THESE COUNTRIES) WERE QUITE WILLING TO ACCOMMODATE IRAN TO GO BACK TO THE LEVELS IT (IRAN) FELT DESIRABLE...THERE WAS...AN UNDERSTANDING THAT...AS THE IRANIAN PRODUCTION GRADUALLY INCREASED THOSE COUNTRIES (THAT PRODUCED EXTRA AMOUNTS) WOULD BE ENTITLED TO GO BACK TO THEIR ORIGINAL TARGETS. I AM SURPRISED THAT THE WESTERN PRESS TURNED THIS AROUND TO MAKE OUT THAT THE OPEC COUNTRIES INTENTIONS WERE TO STARVE THE WORLD OF OIL. THE IDEA IS QUITE CONTRARY TO WHAT WE HAVE DONE, WHICH IS TO RELIEVE THE SHORTAGE."

5. OIL PRICES. Q - ISN'T CUTTING PRODUCTION A PLOY TO FORCE UP PRICES? A - IF THE WEST CRITICIZES THE PRODUCERS WHO HAVE UPPED THEIR PRODUCTION TO MEET THE SHORTAGE FOR RETURNING TO NORMAL AFTER THE CRISIS IS OVER, "THEN EVERYBODY IS GOING TO THINK TWICE WHEN THE NEXT CRISIS COMES AROUND BEFORE INCREASING HIS PRODUCTION TO MEET WORLD NEEDS."

6. THE DOLLAR. Q - ARE YOU IMPRESSED WITH THE STABILIZATION OF THE DOLLAR AND IN ITS EFFECT IN REDUCING THE EROSION OF YOUR PURCHASING POWER? A - "WE DON'T PUT UP (OIL) PRICES FOR THE SAKE OF IT. WE ARE SIMPLY CONCERNED WITH PRESERVING THE PURCHASING POWER OF OUR REVENUE. IF THIS CAN BE ACHIEVED THROUGH A HIGHER VALUE OF THE DOLLAR, THIS WOULD DEFINITELY HAVE AN EFFECT ON PERSUADING US TO KEEP OUR PRICES DOWN...I HOPE THAT THE DOLLAR'S STRENGTH WILL CONTINUE, BUT WHAT I HOPE AND WHAT I THINK DO NOT ALWAYS COINCIDE. I AM NOT IN THE BUSINESS OF PREDICTING CURRENCY TRENDS BUT, IF INFLATION IN THE US IS NOT HELD DOWN, YOU CANNOT
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RUQMOD/AMEMBASSY DOHA 2466
RUQMRA/AMEMBASSY JIDDA 6205
RUDTC/AMEMBASSY LONDON 3428
RUEHMO/AMEMBASSY MOSCOW 405
RUFNPS/AMEMBASSY PARIS 2169
RUQMHR/AMEMBASSY TEHRAN 4708
RUEHKO/AMEMBASSY TOKYO 596
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USDOC FOR CAGNE

EXPECT ARTIFICIAL INTERVENTION TO HOLD THE DOLLAR UP."

7. THE PRESIDENT'S ENERGY PROGRAM. "GAS DEREGULATION WILL HELP BUT I WONDER WHETHER IT WILL BE THE MAGIC WHICH WILL TRANSFORM THE PATTERN OF US (ENERGY) IMPORTS. BY SIMPLY APPLYING THE SAME PRINCIPLE TO OIL, THIS WILL HELP IN THE LONG RUN - IT WILL ENCOURAGE EXPLORATION ...BUT TO SAY THAT THIS WILL BE ENOUGH IS STRETCHING CREDIBILITY TOO FAR...IT WON'T BE ENOUGH TO PERSUADE ME TO GO THE FINANCE MINISTER AND PERSUADE HIM TO INVEST (MORE) IN DOLLARS. I DON'T THINK THE ENERGY BILL IS GOING TO BE THAT EFFECTIVE IN THE SHORT TERM."

8. FUTURE OIL DEMAND/SUPPLY SITUATION. "1979 WILL SEE A BALANCED SUPPLY/DEMAND SITUATION, BUT THERE WILL BE EXTREME SHORTAGES IN THE PERIOD SEPTEMBER THROUGH DECEMBER. 1980 WILL BE MORE DIFFICULT TO FORECAST. IT DEPENDS ON HOW MUCH CONSERVATION CAN BE ACHIEVED IN THE INDUSTRIALIZED WORLD, WHETHER THE FIVE PERCENT TARGETS FOR ENERGY SAVING WILL STICK AND WILL BE ENOUGH. EVEN IF THEY DO STICK, IT WILL BE A TIGHT YEAR. I DON'T EXPECT INVENTORIES TO BE FILLED AGAIN. IN FACT, FOR 1980 THE QUESTION IS WHETHER IT WILL BE TIGHT OR VERY TIGHT. 1981 DEPENDS ON THE RATES OF GROWTH, BUT I CAN ASSURE YOU ONE THING - THERE IS NOT GOING TO BE THE GLUT THAT WAS SPOKEN OF IN 1976/1977."

9. USSR OIL SHORTAGE. Q - "THERE HAVE BEEN REPORTS THAT THE SOVIET UNION WILL FACE A SHORTAGE OF OIL IN THE MEDIUM TERM; DO YOU SEE THEM ENTERING THE OIL MARKETS?" A - MANY OF THE SOCIALIST COUNTRIES IN EASTERN EUROPE HAVE BEEN IN THE MARKET FOR SOME YEARS. THEY ARE INCREASING THEIR IMPORTS FROM OPEC COUNTRIES. THIS IS BECAUSE THEIR DEMAND IS INCREASING AND THE USSR IS NOT INCREASING ITS SUPPLIES, BECAUSE IT CAN'T. THE SOVIET BLOC IS MOST STRONGLY COMING ONTO THE MARKET; THEIR DEPENDENCE ON OIL IS INCREASING AND WILL HAVE AN EFFECT ON OVERALL SUPPLIES."

10. IRANIAN PRODUCTION. "I DON'T THINK IRAN WILL BE INTERESTED IN GOING BACK TO THEIR PREVIOUS LEVELS OF PRODUCTION...IT WAS EXPECTED THAT IN THE 80'S IRAN'S EXPORTS WOULD HAVE FALLEN ANYWAY. IRAN'S INTERNAL DEMAND FOR OIL WILL CONTINUE TO RISE AND, ON THE OTHER HAND, THE OIL FIELDS' ABILITIES TO PRODUCE WILL DECLINE. IN MY VIEW THE IRANIAN SITUATION HAS NOT CHANGED MATTERS DRAMATICALLY - IT HAS ONLY BROUGHT FORWARD THE INEVITABLE."

11. FUTURE MAJOR PROJECTS IN KUWAIT. OVER THE NEXT FIVE YEARS IN THE OIL SECTOR "AT ANY ONE TIME YOU WILL SEE US ENGAGING IN ONE MAJOR PROJECT, BUT YOU WILL NEVER SEE US ENGAGED IN TWO LARGE PROJECTS AT THE SAME TIME. WE SHALL STILL INVEST LARGE AMOUNTS OF MONEY AND EFFORT IN THE OIL SECTOR OVER THE NEXT FEW YEARS - WHETHER IN THE REFINING AND PETROCHEMICAL FIELD OR IN EXPLORATION. BUT WE SHALL TRIM OUR EFFORTS DOWN TO WHAT WE CAN HANDLE. IN THE OTHER SECTORS THE PRESENT CONCENTRATION ON INFRASTRUCTURE, WHICH HAS SEEN BOTH JUMPS AND DELAYS, WILL CONTINUE, ESPECIALLY IN ELECTRICITY, ROADS AND WATER DISTRIBUTION. THIS IS BECAUSE IN THE LAST FEW YEARS THESE SECTORS WERE NEGLECTED. IT IS ALSO A WAY OF DISTRIBUTING WEALTH WHICH IS A MOST IMPORTANT ASPECT OF OUR PLANNING. SIMILARLY HOUSING WILL CONTINUE TO HAVE A GREAT DEAL OF IMPORTANCE. WE SHALL PROBABLY CUT BACK ON PRIVATE HOUSING WHERE, MOST PROBABLY, THERE IS ALREADY A GLUT."

12. COMMENT: ALI KHALIFA IS USUALLY FRANK AND TO THE POINT. HIS COMMENTS TO THE FINANCIAL TIMES EDITOR ARE, WE BELIEVE, AN ACCURATE REFLECTION OF HIS VIEWS ON THE SUBJECTS COVERED.

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RUFNPS/AMEMBASSY PARIS 2195
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RUEHKO/AMEMBASSY TOKYO 0606
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E.O. 12065: GDS 4/29/85 (BUCK, STEPHEN W.) OR-E
TAGS: ENRG, KU
SUBJECT: KUWAIT OIL PRODUCTION FOR APRIL, 1979

REF: (A) KUWAIT 2036, (B) KUWAIT 1726

1. (C-ENTIRE TEXT).

2. FOR THE RECORD, TOTAL KUWAIT CRUDE OIL PRODUCTION FOR THE MONTH OF APRIL AVERAGED 2.55 MILLION B/D, DOWN OVER 100,000 B/D FROM LAST MONTH'S FIGURE OF 2.66 MILLION B/D. APRIL 1979 PRODUCTION WAS 29 PERCENT HIGHER THAN A YEAR AGO, WHILE JANUARY-APRIL PRODUCTION WAS 38 PERCENT HIGHER THAN THE FIRST FOUR MONTHS OF 1978.

3. DETAILED AVERAGE DAILY PRODUCTION BREAK DOWN FOR APRIL WAS AS FOLLOWS:

KUWAIT OIL COMPANY	2,252,566 B/D
WAFRA PRODUCTION	86,368 B/D
KUWAITI SHARE OF PARTITIONED ZONE	
ARABIAN OIL COMPANY PRODUCTION	212,283 B/D
TOTAL	2,551,217 B/D

4. RELIABLE OIL MINISTRY OFFICIAL (PROTECT), WHO PROVIDED FIGURES, SAID CAUSE OF KOC APRIL PRODUCTION DECLINE (BOTH WAFRA AND PARTITIONED ZONE PRODUCTION INCREASED SLIGHTLY) WAS BAD WEATHER CONDITIONS (REF A) WHICH CONTINUED TO HAMPER TANKER LOADING THROUGH END OF THE MONTH. OFFICIAL EXPLAINED THAT KOC ONLY HAS STORAGE CAPACITY FOR ABOUT 4 DAYS OF CRUDE PRODUCTION. ACCORDINGLY WHEN WEATHER (OR OTHER FACTORS) INHIBIT TANKER DOCKING AND LOADING, KOC DECREEASES PRODUCTION SO THAT STORAGE TANKS ARE NEVER FILLED TO CAPACITY. FILLING THE TANKS TO CAPACITY WOULD FORCE A SHUTDOWN IN CRUDE PRODUCTION MEANING THERE WOULD BE NO ASSOCIATED GAS AVAILABLE TO POWER KUWAIT'S ELECTRIC POWER GENERATORS AND OTHER INDUSTRIES. LAST YEAR, AVERAGE DAILY KOC PRODUCTION DECLINED FROM 1.91 MILLION B/D IN MARCH TO 1.78 MILLION B/D IN APRIL DUE TO BAD WEATHER, GIVING CREDENCE TO OFFICIAL'S STATEMENT TO US THAT PRESENT DECLINE IN PRODUCTION IS DUE TO SEASONAL AND TECHNICAL FACTORS RATHER THAN BEING IN RESPONSE TO INCREASED IRANIAN PRODUCTION.
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